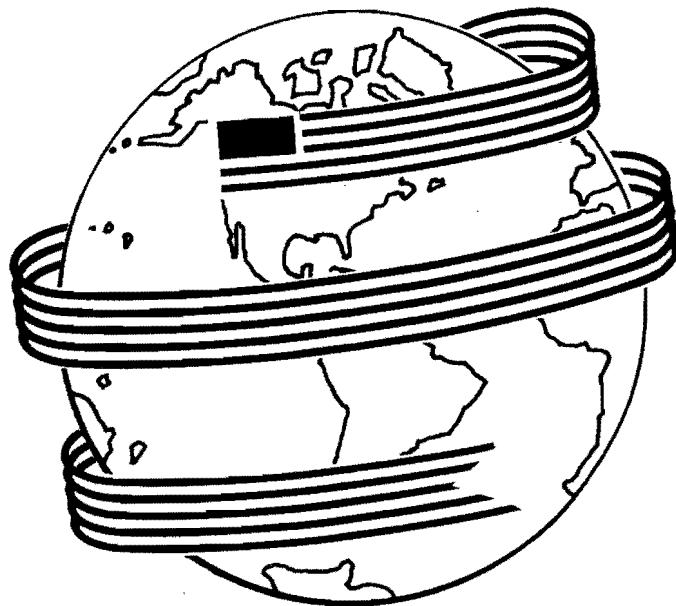


NEW REALITIES:

TOWARD A PROGRAM OF EFFECTIVE COMPETITION



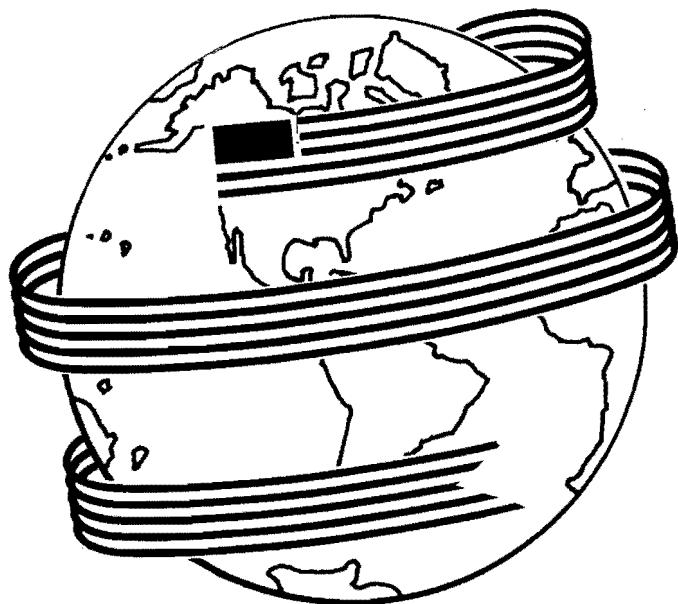
**The National Commission on Agricultural
Trade and Export Policy**

**Final Report
to the President and Congress**

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NEW REALITIES:

TOWARD A PROGRAM OF EFFECTIVE COMPETITION



**The National Commission on Agricultural
Trade and Export Policy**

**Final Report
to the President and Congress
Volume I, July, 1986**

Questions relating to the recommendations and work of the National Commission on Agricultural Trade and Export Policy may be addressed by contacting Steven A. McCoy, Director, National Commission on Agricultural Trade and Export Policy, 1515 South Building, 14th & Independence Avenue, SW, U.S. Department of Agriculture, Washington, DC 20250 or by telephone at 301/320-2829 (until mid-February)

CONTENTS

	PAGE
Dedication	i
Acknowledgements	ii
Transmittal	iii
Preface and Commission Membership	vii
Foreword	xiii
GENERAL DATA	1
EXECUTIVE SUMMARY	15

SECTION ONE: MAXIMIZING POTENTIAL FOR U.S. AGRICULTURE IN WORLD MARKETS

Toward A Program Of Effective Competition	37
The Importance Of Agricultural Exports To The General Economy	39
World Agriculture And Trade In A Global Economy	53
Accompanying Figures	73
U.S. Agricultural Competitiveness	95
Accompanying Cost of Production Data	129
Future Growth Markets For U.S. Commodities And Products	147
Accompanying Figures and Tables	159

SECTION TWO: COMMISSION RECOMMENDATIONS AND COMMENTARY

Aggressive Action To Meet And Counteract The Effects Of Unfair Foreign Trade Practices	1
"U.S. Agriculture and the G.A.T.T.," May 1986	15
Accompanying Information on U.S. Market Shares for Major Commodities	67
Accompanying Information on Export Enhancement and Targeted Assistance Programs	87
Accompanying Information on Section 301	95

Use Of All Existing Tools To Expand Markets For U.S. Agricultural Commodities And Products	111
Accompanying Information on Current Programming of Export Promotion Activities	135
Accompanying Information on Agricultural Export Programs and the Federal Budget	151
Accompanying Information on Market Development	177
Other Accompanying Information	191
Improved Management Of U.S. International And Domestic Economic Policies Which Affect Agricultural Trade Interests	201
"The Macroeconomics of the Dollar and Agricultural Competitiveness," August 8, 1985	207
Additional Emphasis On Value-Added Trade	249
Reorient Food Aid And U.S. Foreign Economic Assistance To Serve Long-Term Market Development Objectives	255
Accompanying Information on Foreign Assistance	281
Targeting Of Market Growth Potential In Third World Countries	289
"Third World Issues," April 1986	295
Lessening Of Foreign Policy Constraints To Economic Growth Through Trade	353
"Effects of the 1980 and 1981 Limitations on Grain Exports to the USSR on Business Activity, Jobs, Government Costs, and Farmers,"	357
Appropriate Attention To The Maintenance Of Domestic Policies That Safeguard U.S. Agricultural Competitiveness In World Markets	395
Accompanying Information Regarding Cargo Preference	409
"Cargo Preference and Other Maritime Subsidy Programs: A Review of Their Application and Effects," April 1, 1983	423
Strengthening Of Agricultural Interests And A Streamlining Of Decision-Making In The Agricultural Trade Policy Process To Provide A More Equitable And Expeditious Response To Agricultural Trade Needs	437
"U.S. Agricultural Trade Decision-Making: A Historical Analysis"	461

SECTION THREE: AUTHORIZATION, ASSOCIATE VIEWS AND OTHER INFORMATION PERTAINING TO THE COMMISSION

Authorization.....	499
Agricultural Trade and Export Policy Commission Act	501
Associate And Dissenting Views	521
Background Of The Commission	531
Witnesses Before The Commission (1985-1986)	541
Supplemental Information Prepared By The Commission.....	555

Dedication

This report is dedicated to the memory of

JOHN S. "DUKE" BARR, III

**an honored friend and member of
The National Commission on Agricultural
Trade and Export Policy**

ACKNOWLEDGEMENTS

The Commission wishes to acknowledge the contributions of the following individuals whose work has made this report possible:

Steven A. McCoy

Associate Director, and principal author of the Commission's Interim Report and Final Report to the President and the Congress of the United States

Dale Hathaway, Jim Webster, John Murray, Rob Rothenberg, and Richard Gilmore
consultants to the Commission

Donald F. Hart

Consultant to the Commission and author of various provisions of the Interim Report and Final Report

Carl W. Ek

Consultant to the Commission and author of various provisions of the Final Report

Arthur B. Mackie

Consultant to the Commission and author of various provisions of the Final Report

Michelle G. Little

Special Assistant to the Directors, and principal coordinator for preparation of the Final Report

Lennice Zickefoose

Past Staff Assistant, and coordinator of the Commission's Interim Report

In addition, the Commission wishes to commend the following individuals whose efforts have contributed to this report:

Julianne Bakke

Frederick P. Billings

David B. Collins

Anne Connolly

John Dockery

Jane Kilby

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EXECUTIVE DIRECTOR
STEVEN A. MCCOY
ASSOCIATE DIRECTOR

July 1, 1986

The Honorable Ronald W. Reagan
President of the United States
The White House
Washington, DC

Dear Mr. President,

The National Commission on Agricultural Trade and Export Policy hereby submits to you its final recommendations pursuant to Public Law 98-412, the "Agricultural Trade and Export Policy Commission Act" of 1984, together with a report on its activities and findings.

The Members of the Commission are honored to have been chosen to serve the Nation. We encourage you to consider these recommendations, as you proceed to confront the trade challenges which face our country.

With warm regards and deepest respect, in behalf of the Members of the Commission.

Sincerely,



Kenneth L. Bader
Chairman

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EXECUTIVE DIRECTOR

STEVEN A. MCCOY

ASSOCIATE DIRECTOR

July 1, 1986

The Honorable Robert J. Dole
Majority Leader
United States Senate
S233 Capitol Building
Washington, DC

Dear Mr. Majority Leader,

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JIMMY D. MINYARD
EXECUTIVE DIRECTOR
STEVEN A. MCCOY
ASSOCIATE DIRECTOR

July 1, 1986

The Honorable Thomas P. O'Neill
Speaker of the U.S. House of Representatives
Room H204 Capitol Building
Washington, DC

Dear Mr. Speaker,

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Sincerely,



Kenneth L. Bader
Chairman

INTRODUCTION

PREFACE

U.S. agriculture is blessed with an abundance of resources which have established it as the world's preeminent supplier of food and fiber products. Its greatest resource – the talent, ingenuity, and dedication of the men and women engaged in agriculture – has been tapped by the National Commission on Agricultural Trade and Export Policy in service to agriculture and the people of the United States.

In agriculture, as in other pursuits, it is people that make the difference. Working and reasoning together, Americans have built the world's leading agricultural system. Many challenges facing agriculture have been overcome through the efforts of farmers, businessmen, scientists, and government officials, working alone and in concert. Agriculture now faces a new challenge – to expand exports and make more equitable the trading environment that exists in the world. It is to meet this challenge that the National Commission was established and has labored.

The membership of the Commission comprises individuals representing all aspects of U.S. agriculture – farmers, businessmen, farm organization leaders, and government officials.

It is a membership with great depth of experience. A bipartisan cross-section of U.S. Senate and House members provides a balance of political interests and views. A cross-section of private sector members balance product and commodity interests. In its deliberations, the Commission has worked as a Committee of the Whole, to capture a broad framework of overwhelming consensus. The recommendations contained in the pages that follow reflect this consensus.

Working and reasoning together the members of the Commission hope to make a difference. There is a future for America in the markets of the world. It is toward this future that the Commission now turns.

Commission Members

Legislation to establish the National Commission on Agricultural Trade and Export Policy was approved by the U.S. House of Representatives on August 6, 1984, and by the U.S. Senate on August 10, 1984. The President signed the legislation into law on August 30, 1984.

By law, the Commission comprises 35 members designated to serve as follows:

- Twenty private-sector members, selected ten each by the Speaker of the U.S. House of Representatives and the President Pro Tempore of the Senate, to represent private sector interests.
- Twelve congressional members, comprising the Chairman and Ranking Minority Members of the Senate Committees on Agriculture, Finance and Foreign Relations and the House Committees on Agriculture, Ways and Means, and Foreign Affairs, or their designees, to represent congressional interests.
- Three nonvoting Administration members, selected by the President to represent federal government agency interests.

MEMBERSHIP OF THE NATIONAL COMMISSION ON AGRICULTURAL TRADE AND EXPORT POLICY

Kenneth L. Bader
Chairman and also,
Chief Executive Officer
American Soybean Association
St. Louis, Missouri

Robert Delano
Vice Chairman
and also,
Past President
American Farm Bureau Federation
Park Ridge, Illinois

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Under Secretary of Agriculture for
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Parks D. Shackelford

David B. Collins

Michelle G. Little

M. Gregory Wilson

Consultants

Richard Gilmore
Dale Hathaway
John Murray
James Webster

By law, the Commission is directed to report its final views on matters pertaining to U.S. agricultural trade and export policy to the President and the Congress no later than July 1, 1986. The Commission's final report is contained herein.



Kenneth L. Bader
Chairman

The commentary and recommendations contained in this report represent the views of a majority of the Members of the Commission. Individual members may differ with the majority view in specific matters.

FOREWORD

The continuing decline in U.S. agricultural exports is sending a danger signal to the U.S. economy. This serious trend not only threatens agriculture; it is damaging to the whole economy. It means a loss of jobs to Americans in a wide array of industries. It spells economic hardship for many businesses in both rural and urban America. It contributes to the deterioration of our national balance of payments. It undermines political and diplomatic relations with our nation's allies. It threatens the solidarity of agricultural interests at home. It places in question our ability – and our resolve – to compete effectively in an ever more interdependent world economy.

The Commission estimates that the decline in agricultural exports since 1981, adjusted for changes in world markets, has resulted in lost sales of farm commodities and products totalling 84.7 million tons, valued at \$30.2 billion. In absolute terms, the dollar loss has been even greater – \$53.9 billion. Billions of bushels of commodities and millions of tons of products lost markets between 1980 and 1985, the equivalent of 7 years of carryover stocks of wheat, 10 years of carryover stocks of corn, and 33 years of carryover stocks of soybeans produced and marketed in the United States. The damage to farmers wrought by these circumstances is only too evident – price depressing surpluses have lowered net farm income and eroded agriculture's investment base. But the effect of the decline in exports goes much deeper.

As a result of the recent decline in U.S. agricultural exports, the general economy has been deprived of economic activity that would have added over \$300 billion to the nation's gross national product (GNP). In the absence of any downturn in exports, millions of jobs could have been added to the economy. Government costs of farm programs could have been slashed. Economic recovery could have buoyed the agricultural industry, generating wealth and advancing the welfare of the nation.

Instead, unprecedented numbers of farm producers face bankruptcy throughout the country. Capacity utilization in the U.S. farm equipment sector declined to 8 percent in the

final quarter of 1984. Capacity utilization in the pesticides manufacturing and potash industries fell by 33 percent and 22 percent in the period 1980-1985. In 1985, soybean crushing plants were operating at 64 percent of capacity and grain trading firms at 50 percent. In 1984-1985, 1,200,000 fewer bushels of basic commodities were loaded on barges on a weekly basis than in 1980-81. Two thousand fewer railcars carried commodities on a weekly basis in 1984-85 than in 1980-81. The facts are equally grim for other farm-related businesses. **Although other sectors of the general economy are experiencing growth, there has been no economic recovery in U.S. agriculture.**

Policy makers need to take seriously the problems facing agriculture. If the United States' competitive position in world markets is not maintained, U.S. agricultural production will have to be reduced by 40 percent, resulting in severe economic hardship for farmers, agribusiness, and rural communities. A decision must be made about the kind of agricultural sector the nation will have in the future. This decision will affect not only farmers, but, if the trends continue, the nation's consumers as well.

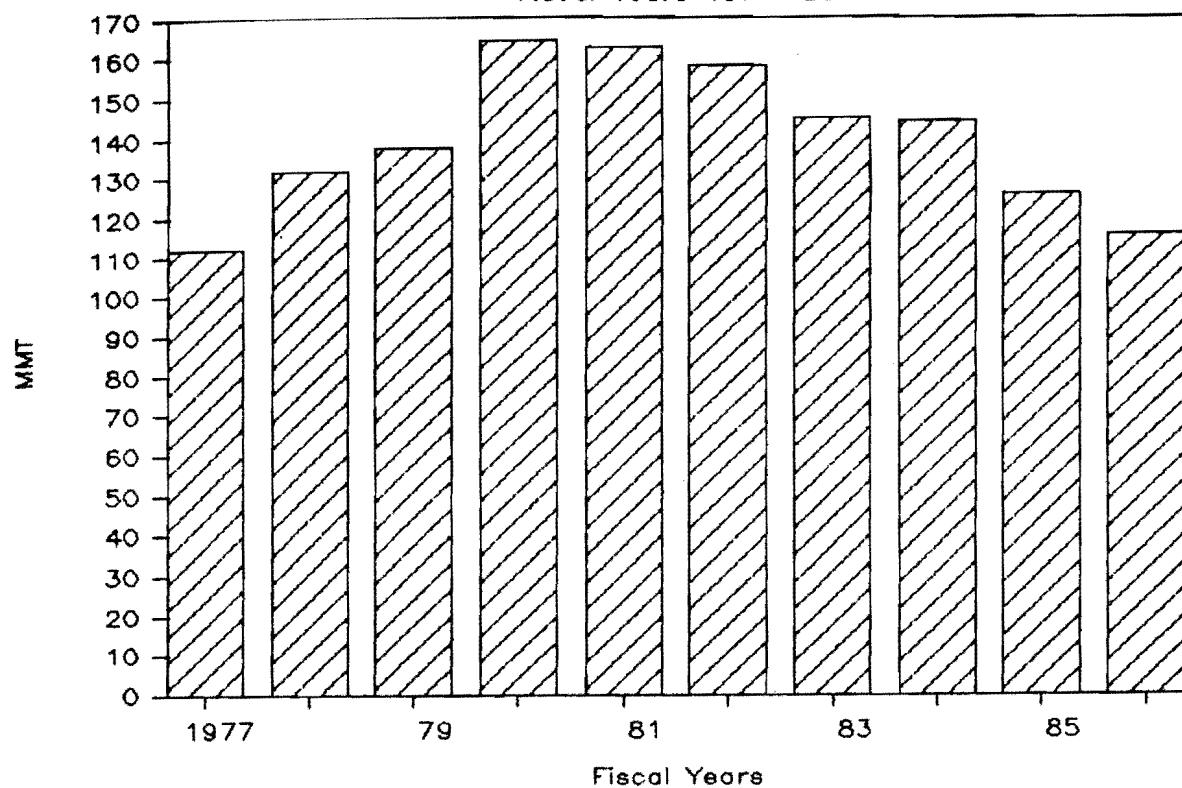
The Commission is well aware of the complicated nature of the causes of the current decline in agricultural exports and other trade problems facing U.S. agriculture. Its interpretation of the causes – and its recommendations for action – are contained on the pages which follow. Yet the Commission hopes to address these issues in a wider context and broaden their appeal to a wider audience.

Americans rarely think of their welfare as linked to the agricultural system of the United States. It is, in a fundamental way. The challenge of reversing the current trends in U.S. agricultural trade is not a challenge for agriculture alone, but for the nation as a whole. It is time for the nation to confront this fact and deal with it as a priority of government and the economy.

GENERAL DATA

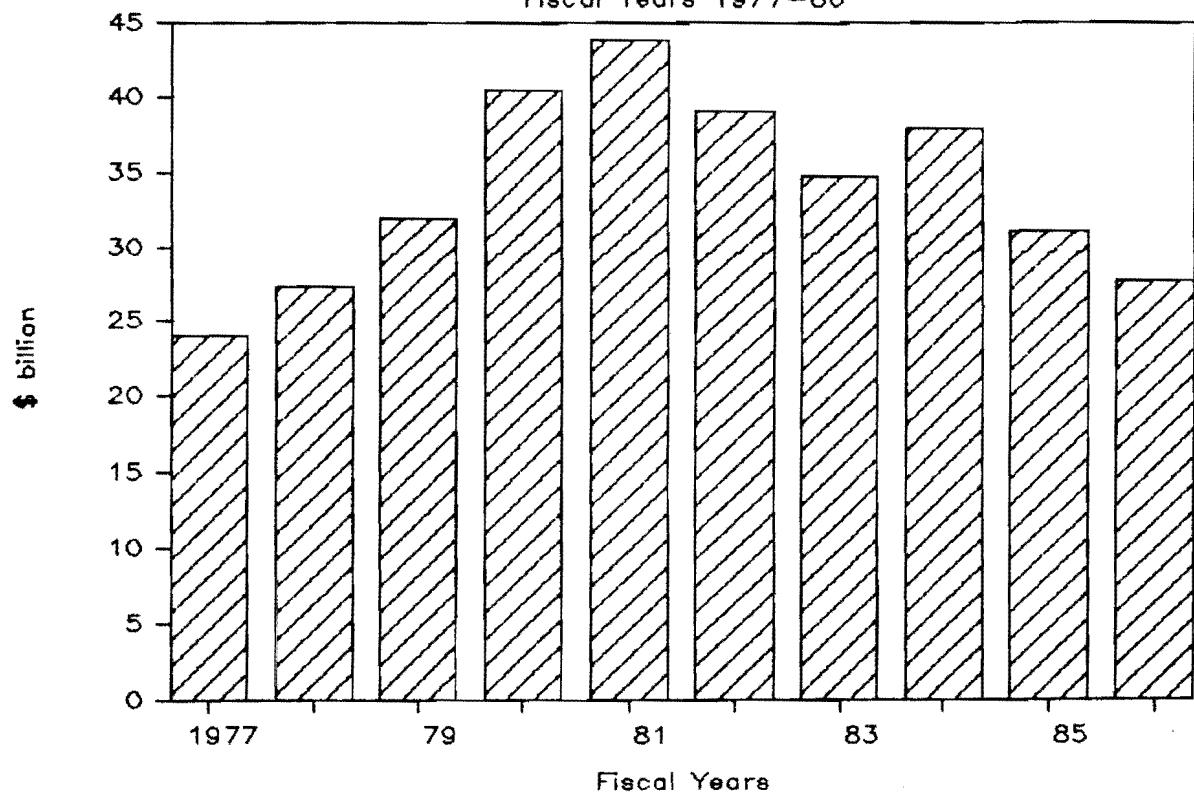
VOLUME OF U.S. AGRICULTURAL EXPORTS

Fiscal Years 1977-86

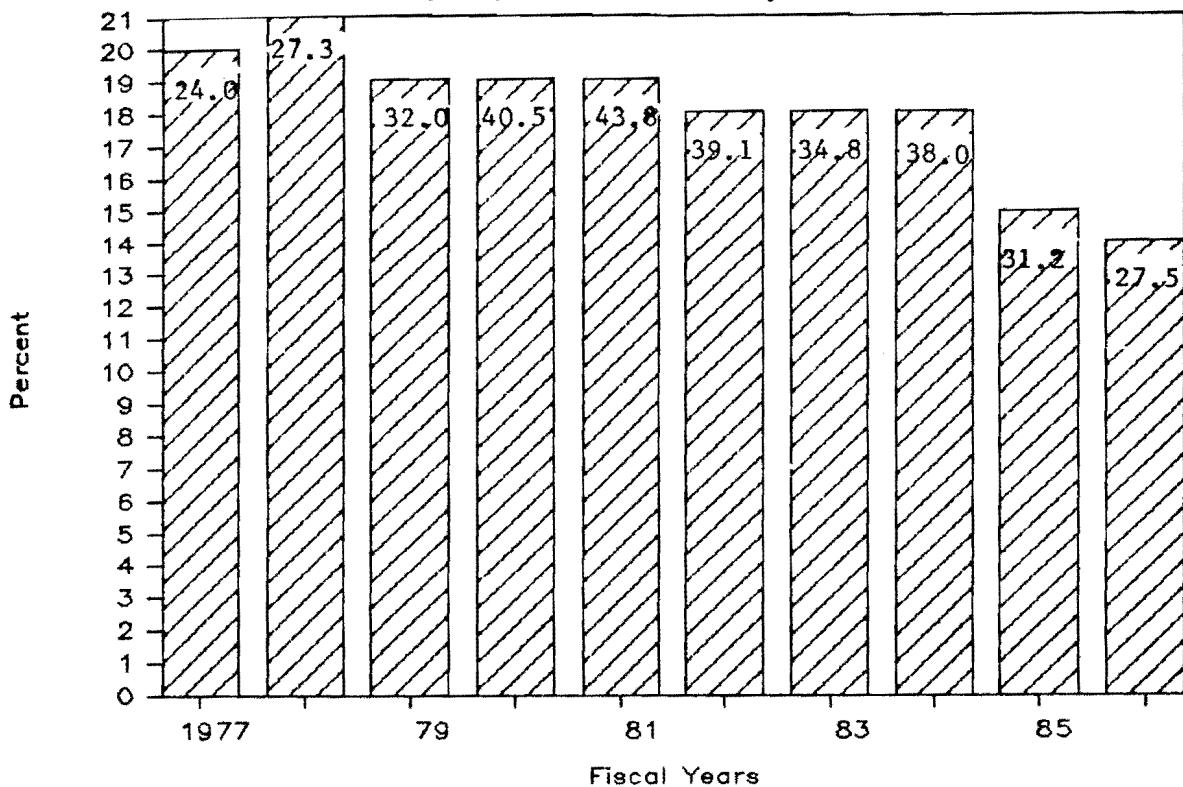


VALUE OF U.S. AGRICULTURAL EXPORTS

Fiscal Years 1977-86



AGRICULTURAL EXPORTS AS A PERCENT OF TOTAL U.S. EXPORTS, 1977-86



Figures in bars are U.S. Agricultural Exports in billion dollars.

U.S. AGRICULTURAL TRADE

--U.S. AGRICULTURAL TRADE BALANCE, 1971/72-1985/86

Year	:	Exports	:	Imports	:	Trade	:	Volume
Beginning	:		:		:	Balance	:	
--Billion Dollars--								
								Million Metric Tons
1971/72		8.24		5.94		2.30		68.6
1972/73		14.98		7.74		7.24		106.6
1973/74		21.61		10.06		11.55		99.9
1974/75		21.85		9.47		12.38		93.5
1975/76		22.76		10.51		12.25		114.1
1976/77		23.97		13.36		10.61		111.9
1977/78		27.29		13.89		13.40		131.3
1978/79		31.98		16.19		15.79		137.4
1979/80		40.48		17.27		23.21		163.9
1980/81		43.78		17.22		26.56		162.3
1981/82		39.10		15.48		23.62		157.9
1982/83		34.77		16.37		18.40		144.8
1983/84		38.03		18.91		19.12		143.6
1984/85		31.18		19.77		11.41		125.7
1985/86*		27.5		20.0		7.5		115.5

*Forecast

SOURCE: Outlook for U.S. Agricultural Exports.

--U.S. TRADE BALANCE, FY 1985
(Billion Dollars)

	<u>Non-</u> <u>Agricultural</u>	<u>Agricultural</u>	<u>All</u> <u>Commodities</u>
Export	179.25	31.18	210.43
Imports	313.69	19.77	333.46
Balance	-134.44	11.41	-123.03

NOTE: Totals may not add due to rounding.

SOURCE: Foreign Agricultural Trade of the United States.

Volume of Selected U.S. Exports and Total Export Volume

Commodity	Fiscal 1982	Fiscal 1983	Fiscal 1984	Fiscal 1985	Fiscal 1986	Forecast
(THOUSAND METRIC TONS)						
Wheat	44,609	36,696	41,700	28,524	26,000	
Flour	721	1,529	1,075	766	1,200	
Coarse Grains 1/	58,179	53,769	55,546	55,231	42,200	
Corn 2/	49,608	47,105	46,986	46,276	36,100	
Feeds, Ingredients & Fodders	6,007	6,991	6,845	6,395	7,000	
Rice	2,911	2,276	2,293	1,972	1,800	
Soybeans	25,477	24,522	19,265	16,620	21,500	
Soybean Cake and Meal	6,266	6,449	4,862	4,460	5,400	
Soybean Oil	941	919	828	752	600	
Sunflowerseed	1,542	1,363	995	999	500	
Sunflowerseed Oil	103	229	188	130	200	
Other Oilcake & Meal	289	239	198	149	100	
Beef, Pork and Variety Meats	398	384	394	400	400	
Poultry Meat	314	251	226	236	200	
Animal Fats	1,497	1,431	1,379	1,199	1,300	
Tobacco	254	245	227	257	200	
Cotton and Linters	1,556	1,209	1,509	1,317	500	
Horticultural Products	3,138	3,041	2,853	2,659	2,700	
Other 3/	3,666	3,226	3,191	3,652	3,700	
Total Exports 4/	157,868	144,769	143,574	125,719	115,500	

1/ Includes corn, oats, barley, sorghum and rye.

2/ Excludes Products.

3/ Actual for all years.

4/ Includes only those commodities measures in metric tons.

NOTE: Totals may not add due to rounding.

SOURCE: Outlook for U.S. Agricultural Exports.

Value of U.S. Agricultural Exports, Imports
and the Agricultural Trade Balance

	Fiscal 1982	Fiscal 1983	Fiscal 1984	Fiscal 1985	Forecast 1986
(MILLION DOLLARS)					
Grains and Feeds	17,615	15,194	17,434	13,424	10,200
Wheat and Flour	7,675	6,169	6,738	4,427	3,600
Coarse Grains 1/	7,051	6,582	8,216	6,867	4,600
Corn 2/	5,962	5,717	7,023	5,771	4,000
Rice	1,149	874	897	676	500
Oilseeds and Products	9,730	8,873	8,774	6,366	6,600
Soybeans	6,479	5,866	5,734	3,872	4,400
Soybean Cake and Meal	1,453	1,449	1,181	834	1,100
Soybean Oil	498	462	633	558	300
Livestock and Products	3,164	2,995	3,460	3,308	3,500
Poultry and Products	579	451	413	393	400
Dairy Products	372	354	397	418	600
Horticultural Products	2,851	2,689	2,606	2,607	2,700
Tobacco	1,486	1,487	1,433	1,588	1,500
Cotton and Linters	2,163	1,703	2,405	1,967	700
Seeds	296	325	320	343	400
Sugar and Tropical Products	838	705	790	769	800
Total Exports	39,095	34,776	38,033	31,183	27,500
Total Imports	15,346	16,329	18,910	19,774	20,000
Trade Balance	23,748	18,447	19,123	11,409	7,500

1/ Includes corn, oats, barley, sorghum and rye.

2/ Excludes products.

NOTE: Totals may not add due to rounding.

SOURCE: Outlook for U.S. Agricultural Exports.

U.S. EXPORTS AS A SHARE OF U.S. PRODUCTION

U.S. Marketing Year	Wheat	Coarse Grains	Rice	Soybeans 1/	Cotton
			----Percent----		
1969/70	42	12	63	53	29
1970/71	55	13	56	55	38
1971/72	38	13	66	49	32
1972/73	73	22	63	53	39
1973/74	71	22	54	50	47
1974/75	57	24	62	49	34
1975/76	55	27	44	50	40
1976/77	44	26	57	59	45
1977/78	55	27	73	54	38
1978/79	67	27	57	54	57
1979/80	64	30	63	53	63
1980/81	64	35	63	56	53
1981/82	64	24	45	61	42
1982/83	55	22	45	55	44
1983/84	59	41	70	59	87
1984/85	55	24	45	44	48
1985/86 2/	37	16	40	49	15
1986/87 3/	50	21	57	53	28

1/ Includes the bean equivalent of meal.

2/ Estimated.

3/ Projected.

SOURCE: World Agricultural Supply and Demand Estimates and Economic Research Service.

U.S. EXPORTS AS A SHARE OF WORLD TRADE

Fiscal Year	Wheat	Coarse Grains	Rice	Soybeans	Soybean Meal	Soybean Oil	Cotton
			----Percent----				
1977/78	47	63	24	86	42	39	32
1978/79	43	64	20	84	46	42	31
1979/80	44	72	21	86	48	44	39
1980/81	46	64	24	82	38	26	28
1981/82	46	60	25	92	35	31	34
1982/83	40	60	19	88	30	28	27
1983/84	40	60	18	77	26	24	36
1984/85	31	55	16	66	23	25	30
1985/86 1/	32	48	16	80	27	22	12
1986/87 2/	34	54	20	76	25	22	28

1/ Estimated.

2/ Projected.

SOURCE: Commodity and Marketing Programs.

U.S. Agricultural Exports: Value by Region,
Fiscal Years 1980-1986

Region 1/	1982	1983	1984	1985	Forecast 1986
--Billion Dollars--					
Western Europe	12.171	10.149	9.264	7.184	7.0
European Community 2/	11.279	9.374	8.608	6.664	6.7
Other Western Europe	.892	.775	.656	.521	.4
Eastern Europe	.921	.827	.741	.531	.5
USSR	2.322	.983	2.512	2.509	1.4
Asia	14.135	13.588	15.210	11.934	10.5
Middle East 3/	1.486	1.482	1.865	1.452	1.5
South Asia 4/	.711	1.170	.867	.600	.5
Southeast & East Asia 5/	4.383	4.501	4.849	3.980	3.5
Japan	5.735	5.889	6.935	5.663	4.9
China	1.819	.546	.692	.239	.1
Canada	1.869	1.870	1.936	1.727	1.5
Africa	2.450	2.273	2.868	2.528	2.2
North Africa 6/	1.395	1.453	1.542	1.208	1.4
Sub-Saharan Africa	1.055	.820	1.327	1.319	.8
Latin America	4.933	4.858	5.282	4.565	4.2
Mexico	1.493	1.777	1.968	1.564	1.5
Central America & Caribbean	1.107	1.129	1.223	1.129	1.1
South America	2.333	1.952	2.091	1.872	1.6
Oceania	.294	.223	.216	.204	.2
Total	39.095	34.776	38.033	31.183	27.5
Developed Countries 7/	20.069	18.511	19.182	15.226	13.6
Less Developed Countries	13.964	13.904	14.906	12.676	11.9
Centrally Planned Countries	5.061	2.356	3.945	3.280	2.0

1/ Data are adjusted for transshipments through Canada and Western Europe.

2/ Includes Greece, Spain and Portugal.

3/ Turkey, Cyprus, Syria, Lebanon, Iraq, Iran, Israel, Jordan, Kuwait, Saudi Arabia, Qatar, United Arab Emirates, Yemen (Sana), Yemen (Aden), Oman, and Bahrain.

4/ Afghanistan, India, Pakistan, Nepal, Bangladesh, and Sri Lanka.

5/ Burma, Thailand, Vietnam, Laos, Malaysia, Singapore, Indonesia, Brunei, Philippines, Macao, Korea, Hong Kong, Taiwan, and Kampuchea.

6/ Morocco, Algeria, Tunisia, Libya, and Egypt.

7/ Western Europe, Japan, Canada, and Oceania.

SOURCE: Outlook for U.S. Agricultural Exports.

Top 15 Markets for U.S. Agricultural Exports

<u>Country</u>	<u> : Fiscal : 1983</u>	<u> : Fiscal : 1984</u>	<u> : Fiscal : 1985</u>	<u> : Share of : FY 1985 : Total</u>
--Billion Dollars--				
Japan	5.877	6.910	5.654	18.1
U.S.S.R.	.976	2.478	2.448	7.8
Netherlands	2.765	2.188	1.908	6.1
Canada	1.850	1.909	1.703	5.5
Mexico	1.777	1.965	1.576	5.0
Korea (Republic of)	1.713	1.816	1.400	4.5
China (Taiwan)	1.237	1.409	1.342	4.3
Germany (Fed. Rep. of)	1.454	1.260	.900	2.9
Spain	1.038	1.191	.768	2.5
Egypt	.889	.845	.763	2.4
Venezuela	.617	.778	.716	2.3
Italy	.768	.758	.675	2.2
United Kingdom	.815	.782	.617	2.0
Brazil	.400	.438	.553	1.8
Portugal	.638	.702	.487	1.6
Total of Top 15	22.814	25.429	21.510	69.0
Other	11.962	12.604	9.672	31.0
Grand Total	34.776	38.033	31.182	100.0

Data not adjusted for transshipments.

SOURCE: Country Ranking Profile.

U.S. Agricultural Exports to Developed, Less Developed
and Centrally Planned Countries, Oct.-Sept. 1969/70-1985/86

Oct. - Sept. Year	:	:	Developed		Less Developed		Centrally Planned	
			Billion Total Dollars		Billion Dollars (%)		Billion Dollars (%)	
			:		:		:	
1970	:	6.9	4.6	(67)	2.2	(32)	.2	(3)
1971	:	8.0	5.1	(64)	2.6	(33)	.3	(4)
1972	:	8.2	5.2	(63)	2.6	(32)	.5	(6)
1973	:	15.0	9.1	(61)	4.0	(27)	1.9	(13)
1974	:	21.6	12.3	(57)	7.3	(34)	2.0	(9)
1975	:	21.9	12.5	(57)	7.9	(36)	1.5	(7)
1976	:	22.8	12.7	(56)	6.9	(30)	3.2	(14)
1977	:	24.0	14.5	(60)	7.4	(31)	2.1	(9)
1978	:	27.3	14.6	(53)	9.3	(34)	3.4	(12)
1979	:	32.0	16.7	(52)	10.6	(33)	4.7	(15)
1980	:	40.5	20.3	(50)	14.3	(35)	5.9	(15)
1981	:	43.8	20.9	(48)	16.9	(39)	5.9	(13)
1982	:	39.1	20.1	(51)	14.0	(36)	5.1	(13)
1983	:	34.8	18.5	(53)	13.9	(40)	2.4	(7)
1984	:	38.0	19.2	(51)	14.9	(39)	3.9	(10)
1985 ^{1/}	:	31.2	15.2	(49)	12.7	(41)	3.3	(10)
1986 ^{2/}	:	27.5	13.6	(49)	11.9	(43)	2.0	(7)

^{1/} Preliminary. ^{2/} Forecast.

The problems associated with market development strategies are somewhat different in each of these areas.

- (a) Our trade problems with developed countries can be summed up in one word, protectionism.
- (b) Our efforts to expand markets in less developed countries are largely impeded by lack of liquidity or effective demand--i.e., no foreign exchange.
- (c) Our development problems with centrally planned economies are largely political (witness the PRC) and weather related (witness the U.S.S.R.). These countries also suffer from a lack of effective demand (witness Poland).

SOURCE: Outlook for U.S. Agricultural Exports.

U.S. AGRICULTURAL EXPORTS: TOTAL, COMMERCIAL, AND CONCESSIONAL:
FISCAL YEARS 1960-1986

FY <u>1/</u>	Commercial Export			Concessional Exports			: Total Exports	: P.L. 480 AID	: Share of Percent
	CCC <u>2/</u>	Credits	Other	Total	P.L. 480	AID <u>3/</u>			
	-----Million Dollars-----								
1960	1	3,235	3,236	1,116	167	1,283	4,519	28	
1961	18	3,426	3,444	1,316	186	1,502	4,496	30	
1962	33	3,540	3,573	1,495	74	1,569	5,142	31	
1963	77	3,531	3,608	1,457	13	1,470	5,078	29	
1964	118	4,509	4,627	1,418	23	1,441	6,068	24	
1965	95	4,407	4,501	1,570	26	1,596	6,097	26	
1966	210	5,358	5,148	1,346	43	1,389	6,747	21	
1967	339	5,174	5,513	1,271	37	1,308	6,821	19	
1968	141	4,893	5,034	1,280	17	1,297	6,331	20	
1969	116	4,585	4,701	1,039	11	1,050	5,751	18	
1970	211	5,679	5,890	1,056	12	1,068	6,958	15	
1971	391	6,485	6,876	1,023	56	1,079	7,955	14	
1972	372	6,746	7,118	1,058	67	1,124	8,242	14	
1973	1,028	12,926	13,954	954	84	1,030	14,984	7	
1974	298	20,319	20,617	867	76	942	21,559	4	
1975	249	20,346	20,595	1,101	122	1,222	21,817	6	
1976	619	21,003	21,622	907	216	1,120	22,742	5	
1977	755	21,696	22,451	1,102	419	1,523	23,974	6	
1978	1,583	24,156	25,739	1,074	477	1,550	27,289	6	
1979	1,591	28,897	30,488	1,182	304	1,491	31,979	5	
1980	1,417	37,540	38,957	1,341	183	1,524	40,481	4	
1981	1,873	40,415	42,246	1,375	159	1,534	43,780	4	
1982	1,393	36,612	37,905	1,108	82	1,190	39,095	3	
1983	3,960	30,073	33,443	1,203	130	1,333	34,776	4	
1984	3,714	33,050	36,657	1,226	150	1,376	38,033	4	
1985(p)	2,513	27,582	29,282	2,105 <u>4/</u>	278	2,383	31,182	8	
1986(e)	5,264 <u>5/</u>	20,221	25,485	1,740 <u>4/</u>	275	2,015	27,500	7	

1/ 1960 through 1976 July/June year. 1977 forward October/September year.

2/ Includes sales from CCC stocks, loans and guarantees from Export-Import Bank; CCC credit; and barter shipments.

3/ Includes for FY 84 \$45.8 million market value of CCC commodities exported under the SEC 416 program and \$104 million of AID mutual security loans; FY 85 \$188 million market value of CCC commodities exported under the Sec. 416 program and \$90 million market value of CCC commodities exported under the African sales program; and FY 86 \$275 million of Sec. 416.

4/ FY 85 and FY 86 are P.L. 480 preliminary export levels.

5/ CCC Credits includes \$4,785 million for FY 86 and \$478 million of Intermediate Credit Guarantees.

SOURCE: Foreign Agricultural Trade of the United States
and Office of the General Sales Manager.

VALUE OF SPECIFIED U.S. AGRICULTURAL IMPORTS

BILLION DOLLARS

COMMODITY AND/OR COMMODITY GROUP	:	ACTUAL			Forecast Fiscal Year 1986
		Fiscal Year 1983	: Fiscal Year 1984	: Fiscal Year 1985	
Sugar & Trop. Products...	:	6.042	7.374	7.225	7.570
Coffee & Products.....	:	2.833	3.301	3.245	4.000
Sugar (Raw & Refined)...	:	.974	1.148	.912	.600
Cocoa & Products.....	:	.829	1.058	1.285	1.240
Dairy, Lvstk & Poultry...	:	3.799	3.804	4.014	4.100
Livestock Products....	:	3.090	3.077	3.314	3.400
Dairy Products.....	:	.618	.605	.607	.600
Poultry & Eggs.....	:	.091	.122	.093	.100
Horticultural Products...	:	4.665	5.567	6.290	6.430
Oilseeds & Products....	:	.481	.785	.769	.641
Grains & Feeds.....	:	.554	.704	.816	.800
Tobacco.....	:	.687	.563	.556	.500
Seeds.....	:	.085	.087	.079	.085
Cotton & Silk.....	:	.015	.026	.024	.022
TOTAL IMPORT VALUE <u>1/</u> ...	:	16.329	18.910*	19.773	20.000

1/ Totals may not add due to rounding.

*Includes recent errata.

SOURCE: Fiscal 1983, 1984, and 1985 data from U.S. Bureau of Census. Fiscal 1986 Outlook for U.S. Agricultural Exports.

VOLUME OF SELECTED U.S. AGRICULTURAL IMPORTS

MILLION METRIC TONS

COMMODITY AND/OR COMMODITY GROUP	:	ACTUAL			Forecast Fiscal Year 1986
		Fiscal Year 1983	: Fiscal Year 1984	: Fiscal Year 1985	
Coffee & Products.....	:	1.061	1.128	1.129	1.240
Sugar (Raw & Refined)....	:	2.584	2.917	2.950	2.100
Cocoa & Products.....	:	.464	.451	.539	.500
Red Meats.....	:	.935	.901	1.118	1.125
Coconut Oil.....	:	.402	.416	.404	.500
Palm Oil.....	:	.140	.168	.181	.310
Tobacco.....	:	.224	.190	.183	.175

SOURCE: Fiscal 1983, 1984, and 1985 data from U.S. Bureau of Census. Fiscal 1986 Outlook for U.S. Agricultural Exports.

EXECUTIVE SUMMARY

**EXECUTIVE SUMMARY OF
THE REPORT TO THE PRESIDENT AND CONGRESS
OF THE UNITED STATES OF AMERICA**

**Concluding Recommendations
of the
NATIONAL COMMISSION ON AGRICULTURAL
TRADE AND EXPORT POLICY**

**Submitted this day,
July 1, 1986**

The National Commission on Agricultural Trade and Export Policy hereby reports to the President and the Congress of the United States of America that, pursuant to Public Law 98-412, the Agricultural Trade and Export Policy Commission Act, enacted by the Congress and signed into law by the President of the United States on August 30, 1984, the Commission has, since November 30, 1984, had under consideration "the agriculture related trade and export policies, programs, and practices of the United States and the international and domestic factors affecting such policies, programs and practices, including the inter-governmental activities of the United States that affect the formulation of policies," as required by law. The Commission now concludes its deliberations with the following recommendations.

The Importance of Agricultural Trade to the Nation

United States agricultural exports and trade are vital factors in the well-being of our nation's economic system. Employment for one-fifth of our nation's work force is linked to our ability to maximize opportunities arising in the domestic and world market for basic agricultural commodities and value-added products.

United States agriculture has suffered serious and substantial setbacks in recent years, in large part the consequence of declining export sales. In addition, our domestic industries – both agricultural and manufacturing – face an ever-deepening crisis that results from new competitive pressures, many of which find their source in unfair import practices.

A variety of factors has contributed to the recent decline in U.S. agricultural competitiveness. Only some of these factors, such as fluctuations in exchange rate values and levels of worldwide economic growth, can be said, even remotely, to arise from a free play of world economic forces. More often, the outcome of competition in world markets results from the direct actions of government. U.S. domestic policies, both agricultural and nonagricultural, have had an important inhibitory impact on our nation's competitive position. Unfair trade practices of other nations similarly lessen our opportunities in our own market and in markets overseas.

Reform of domestic policies must take place in a political milieu. Such policies are subject to conflicting agendas, loyalties, and jurisdictional privilege. Change is always very difficult to achieve.

The same situation is true for reform of international practices and policies. In an increasingly competitive environment, efforts to overturn the unfair trade practices of other sovereign nations become greatly more difficult. In neither case is there room for resignation. The stakes are simply too high.

America's survival as a world leader in international trade is in question. It is time for our nation to hold the line. Every possible action must be taken to eliminate the unfair trade practices of other countries that under-

cut our position in world trade. In addition, we must take the necessary steps to ensure that the policies of our own government do not result in a decline in our competitiveness. Our response to the problems which currently affect U.S. agriculture must mirror the economic importance to the nation of maintaining the strongest possible position in world markets.

These are critical times for American agriculture. Agriculture stands at a crossroads of opportunity or crisis.

There are practical solutions to even some of the most intractable problems facing U.S. agriculture in world trade. As a first step, we should resolve to achieve the goal of recapturing the total world market share of U.S. agricultural exports, by commodity, achieved during the last period of major recent growth of such exports.

Getting at other solutions will demand equally strong and united commitments on the part of the nation's agricultural industry – a commitment to competitiveness, a commitment to a healthy agriculture, and a commitment to our nation's leadership in world agricultural trade. **Government and industry must chart a common purpose in directing our nation's trade future. Together, with the tools recommended by the Commission, that future can be one of substantial promise.**

Commission Deliberations

In preparing its final recommendations, the Commission has been guided by two basic principles: (1) wariness of actions that would result in additional federal budgetary expenditures; and (2) willingness to consider any and all policy options that hold promise of improving trade circumstances affecting agriculture. The Commission has, throughout its deliberations, operated as a Committee of the Whole. It has conscientiously striven to find consensus positions uniting the diverse elements of the nation's agricultural industry, as they are broadly represented by the Members of the Commission.

The Commission has actively sought the

participation of all people, organizations, and companies with direct interests in matters of agricultural trade. It has met throughout the country, and in all regions of the country, to assure a balance of regional interests in matters of trade. It has consistently honored its original commitment to bipartisanship in matters of a political nature. Consequently, the recommendations which follow should enjoy the overwhelming support of the entire agricultural industry of the nation.

SUMMARY RECOMMENDATIONS

The Commission summarily recommends that in the design and conduct of agricultural trade and export policy, the United States government be guided by the need to meet the following objectives, which are of equal importance and are here listed without regard to order of priority:

1. AGGRESSIVE ACTION TO MEET AND COUNTERACT THE EFFECTS OF UNFAIR FOREIGN TRADE PRACTICES
2. USE OF ALL EXISTING TOOLS TO EXPAND MARKETS FOR U.S. AGRICULTURAL COMMODITIES AND PRODUCTS
3. IMPROVED MANAGEMENT OF U.S. INTERNATIONAL AND DOMESTIC ECONOMIC POLICIES WHICH AFFECT AGRICULTURAL TRADE INTERESTS
4. ADDITIONAL EMPHASIS ON VALUE-ADDED TRADE
5. REORIENTATION OF FOOD AID AND ECONOMIC ASSISTANCE TO SERVE LONG-TERM MARKET DEVELOPMENT OBJECTIVES, WITH SUBSTANTIAL RELIANCE ON POLICIES DESIGNED TO PROMOTE PRIVATE-SECTOR AND FREE MARKET ORIENTED GROWTH IN DEVELOPING COUNTRIES
6. TARGETING OF MARKET GROWTH POTENTIAL IN THIRD WORLD COUNTRIES
7. LESSENING OF FOREIGN POLICY CONSTRAINTS TO ECONOMIC GROWTH THROUGH TRADE
8. APPROPRIATE ATTENTION TO THE

MAINTENANCE OF POLICIES THAT SAFEGUARD U.S. AGRICULTURAL COMPETITIVENESS

9. STRENGTHENING OF AGRICULTURAL INTERESTS AND STREAMLINING OF DECISION-MAKING IN THE AGRICULTURAL TRADE POLICY PROCESS TO PROVIDE A MORE EQUITABLE AND EXPEDITIOUS RESPONSE TO AGRICULTURAL TRADE NEEDS

The Commission further recommends that the agricultural industry of the United States continue to seek consensus in matters of trade policy, to ensure the proper evolution of pro-export and pro-trade government policies in domestic and international matters.

To achieve such objectives, the Commission recommends policies and programs as follows:

AGGRESSIVELY MEET & COUNTERACT UNFAIR FOREIGN TRADE PRACTICES

American agriculture is currently under unprecedented assault by foreign governments employing aggressive and unfair trade practices. The United States government must take a far stronger position on matters of trade. Retaliatory capabilities of the United States government should be enhanced, and all effective means employed to counter the disruptive effect of foreign export subsidies, nontariff and tariff trade barriers, and unfair import competition. Management of currently authorized export enhancement and import protection programs should be improved to safeguard U.S. jobs and enhance long-term U.S. opportunities in world markets.

Progress toward the goal of fair world trade has been substantially eroded in recent years as a consequence of worldwide escalation of unfair trade practices.

In many instances, and for most commodities and products, there is an absence of free markets in world agriculture. Policies of government, rather than market forces, increasingly dictate the terms and conditions under which competition takes place. Trade barriers beget trade barriers. Unfair import competition begets

protectionism. There are always many more losers than winners in a trade war.

Avoidance of trade disputes requires that international rules governing agricultural trade be updated and clarified. Established procedures for policing violations of such rules need strengthening and streamlining. International cooperation is urgently required to

- Stem the tide of protectionist sentiment at home and abroad;
- Open markets for basic and value-added agricultural commodities products;
- Limit import restrictions, including arbitrary and capricious quality and health regulations that represent nontariff trade barriers;
- Limit the use of export subsidies and other predatory export trade practices; and
- Improve GATT processes and procedures to provide for stricter discipline and enforceability.

The Commission recommends:

1. **Automatic retaliation under Section 301 of the Trade Act of 1974 in the event of unsatisfactory settlement of cases subject to petition under Section 301.**
2. **Full utilization of all resources and programs of the federal government designed to combat unfair export competition and foreign trade barriers.**
3. **The President be authorized to enter into a new round of bilateral and multi-lateral negotiations to improve conditions affecting U.S. agricultural trade.**
4. **GATT be substantially reformed to provide for a clarification of GATT rules, expeditious response to violations of such rules, and stricter enforceability of GATT findings.**
5. **The United States retain appropriate safeguards and retaliatory capabilities to enable it to aggressively pursue trade reform and protect domestic industries damaged by unfair import**

competition.

Retaliation Under Section 301

Retaliatory powers of the U.S. government should be enhanced to enable industries to obtain relief under Section 301 and to stimulate greater cooperation towards dispute settlement within the GATT framework. The U.S. Trade Representative (USTR) should be required to take retaliatory steps to counter the economic impact of unfair trade practices within six months of the filing of Section 301 petition, except upon (a) determination by USTR that action with respect to the petition is unwarranted; (b) determination by appropriate and binding GATT mechanisms that the U.S. position is unsubstantiated; or (c) agreement by the offending country to eliminate such practice. Such an expedited timetable is feasible particularly if reform of GATT is achieved, as elsewhere recommended by the Commission.

USTR should be required to self-initiate Section 301 cases upon evidence of unfair trade practices and without petition of affected domestic industries. Enhanced unfair trade monitoring capabilities should be provided to the U.S. Department of Agriculture to ensure that all unfair trade practices and export subsidies are subject to retaliation under Section 301.

Utilization of Government Programs

Unfair export practices of other nations should be directly countered using all available authority, including export payment in kind. In more extreme cases, variable import restrictions and, preferably, adjustments in U.S. export restitution policy may be required to reward nations cooperating in efforts to lower trade barriers and to take action against nations which continue to employ predatory or unfair trade practices.

Assistance under such programs should be provided to all commodities and products that face competition by subsidized foreign exports, with priority consideration given to those commodities and products facing stiffer unfair competition.

The United States government should di-

rectly retaliate against the use by foreign governments of unfair and non-tariff trade barriers, including arbitrary and capricious health and sanitary restrictions. Consideration should be given to the application of temporary import surcharges on products imported into the United States from countries employing such practices, to stimulate greater progress towards the elimination of such practices.

Countervailing and antidumping measures initiated in respect to agricultural and agriculturally-related products entering the United States should be enforced on a consistent basis. The **United States government response to unfair import competition should be no less consistent than its response to unfair export practices and foreign market barriers.**

Administrative protection of domestic industries under the 1979 Trade Act and Section 22 should be consistently enforced. The issue of agricultural producer standing before the International Trade Commission in countervailing duty and antidumping cases should be further explored and clarified. Consideration should be given to improvement of procedures employed by the Department of Commerce in antidumping cases, to prevent subsidies from lowering dumping margins. Customs rulings (including private letter rulings) should be published in the **Federal Register** thirty days prior to implementation, to ensure that domestic producers are knowledgeable of such rulings, and have the opportunity to protect their interests prior to the effect of those rulings being implemented.

Trade Negotiations

Legislation should be enacted to establish explicit and binding requirements to govern objectives of U.S. representatives to ongoing bilateral negotiations and general negotiations to reform the GATT. At a minimum, U.S. representatives should be bound to negotiate the following:

(a) Elimination or substantial reduction of constraints to fair and open trade in basic and value-added agricultural commodities, to include:

- (i) tariffs;
- (ii) quantity limitations;

- (iii) nontariff trade barriers; and
- (iv) predatory and unfair export practices.

The Commission is cognizant that allowance for, or modifications in, U.S. and foreign domestic agricultural policies must be taken into account in efforts to achieve the above objectives.

In relation to tariff reductions, the Commission recommends that U.S. representatives be authorized to undertake agreements to reduce tariff barriers by at least 50 percent, across the board and worldwide.

(b) Expansion of GATT applicability to include services, intellectual property, and other aspects of trade not currently addressed by GATT, particularly as they pertain to agricultural trade.

(c) Expansion of GATT applicability to state trading activities.

(d) Expedited dispute arbitration and settlement mechanisms within the framework of GATT.

(e) Achievement of tighter GATT enforcement powers, and clarification of criteria relating to unfair practices contained in the Subsidies and Countervailing Duties Code.

(f) Achievement of internationally approved and recognized scientific and technical standards governing quality, health, and quarantine standards.

GATT Reform

The following reforms should be undertaken in respect to the GATT:

(a) **Achievement of tighter GATT enforcement powers.**

The enforceability of GATT rulings is undermined by the consensus nature of GATT decision-making, the veto power of signatories, and the absence of binding requirements on signatories in the event of a finding of unfair export subsidization. The rule of unanimous consent should be eliminated. The current GATT process makes it too easy for GATT violators to sidestep their treaty obligations. The process should be undergirded by automatic and admiss-

sible retaliatory actions that are binding on all GATT signatories.

(b) Clarification of criteria relating to unfair trade practices contained in the Subsidies and Countervailing Duties Code and Article XVI of GATT.

Current criteria contained in the Subsidies Code governing GATT definition of export subsidies need greater clarification. The Subsidies Code was intended to refine the definition of admissible and inadmissible trade practices referred to in Articles VI, XVI and XIII of the GATT. In practice, however, the Code provides cover and lends an air of legitimacy to trade practices that are clearly in violation of fair trade precepts.

Export subsidies applied to primary products should face the same restrictions as are currently applied to subsidies on non-primary products. Every effort should be made to provide for specific prohibition of such subsidies regardless of current criteria, which allow such practices in the event that their use does not result in exports above an "equitable share" of world markets.

Consideration should be given to amendment of GATT to allow the imposition of countervailing duties on subsidized imports without a finding of injury to a domestic industry or at a lower standard of injury than the present "material injury" standard.

(c) Extension of GATT applicability to state trading activities.

State trading activities are common in world agricultural trade, and yet issues arising from the incidence of unfair state trading are not addressed by GATT. State selling agencies engage in export subsidy and dumping activities and state importing agencies engage in preferential, "closed door" purchasing; however, it is currently virtually impossible to determine the extent of their involvement. GATT rules are needed to govern the activities of state trading organizations to include:

(i) Provision for greater transparency on exporter and importer sales transactions, as to prices, credit terms, or other transactions by state exporting and importing organizations;

(ii) Tightening of state practices in regard to

export sales at prices different from internal sales prices, and internal sales prices unrelated to world prices; and

(iii) Open bidding for all imports.

Such efforts should include addressing practices of non-market economies that are currently not signatories of GATT.

(d) Improved and expedited dispute settlement within GATT.

GATT dispute mechanisms are currently far too cumbersome and slow. By contrast, determinations of the International Trade Commission and subsequent Executive action in countervailing and antidumping cases are subject to a much more stringent and legally binding time constraint.

The Commission believes that time constraints and procedures under Section 301 of the Trade Act of 1974 should be no less binding than legislatively mandated requirements under Section 201 - 203 of the 1974 Act, and Section 337 and Title VII of the 1930 Tariff Act.

Consideration should be given to the following improvements in the GATT dispute settlement process:

(i) Allow the Director-General of GATT to intervene more effectively to bring disputing parties into mediation and arbitration;

(ii) Bind disputing parties to voluntarily agree in advance to submit their case to a neutral arbitration panel and to abide by the panel's decision;

(iii) Designate pre-selected, nongovernmental individuals, rather than government representatives, to serve on "expert panels";

(iv) Establish a reasonable timetable for consideration and action by experts; and provide uniform guidelines for information to be contained in such reports;

(v) Provide for automatic publication of all panel reports. The adoption of or alteration of panel recommendations should be separated from the panel report;

(vi) Take effective action to counteract the impact of currency valuation arising from factors other than those determined by market

forces. Consideration should be given to the admissibility under GATT of countervailing duties, or other safeguards, on imports benefitting from unjustified competitive advantage resulting from the manipulation by governments of such values without regard to market indices, or agreements entered into between countries in respect to such currency valuation.

(e) Appropriate safeguards and retaliatory capabilities to ensure greater cooperation in trade matters.

The United States government and U.S. negotiators in international forums should have appropriate ammunition to aggressively pursue international cooperation in trade matters. Great care should be taken in the selection and preparation of U.S. negotiators. In addition, as recommended elsewhere, to encourage timely action on Section 301 cases the U.S. Trade Representative should be required to take retaliatory action against nations utilizing unfair trade practices within six months of the filing of a 301 petition, except if (a) he determines within such time that action in respect to the 301 petition is unwarranted, (b) determination is made by appropriate and binding GATT mechanisms that the U.S. position is unsubstantiated, or (c) agreement is entered into with the offending nation to eliminate such practices.

Appropriate attention should be given to the maintenance of programs designed to protect U.S. industries from the effect of unfair import competition.

USE OF ALL EXISTING TOOLS TO EXPAND COMMERCIAL MARKETS FOR U.S. AGRICULTURAL COMMODITIES AND VALUE-ADDED PRODUCTS

Greater attention should be given to the need to maintain or expand the budgetary resources of the federal government which serve export credit and other programs designed to enhance U.S. competitiveness in world markets. Management of such programs should allow for nondiscriminatory treatment of traditional markets for U.S. agricultural commodities and products. Additionality should be achieved through substantial reliance on long-term market development strategies. Resources for ex-

port and market development-related programs of the United States Department of Agriculture (USDA), including the Foreign Agricultural Service (FAS) overseas market development program, should be maintained at levels that provide for expanded activity by USDA in matters of trade.

The Commission recommends:

1. Export credit and enhancement programs contained in the 1985 Farm Act be funded at levels not less than those specified in the Act.
2. Management of such programs be improved to allow for a longer-term orientation, with appropriate attention given to the need to service traditional customers of U.S. agricultural commodities and products.
3. Programs of the U.S. Department of Agriculture, including the Foreign Agricultural Service and the overseas market development program of the FAS, be funded at levels not less than those authorized and appropriated for such purposes in Fiscal Year 1986, or at a level consistent with the enhanced role of the Department of Agriculture, as recommended in other parts of this report.
4. New authority be granted to the Secretary of Agriculture to carry out additional responsibilities in respect to market development.

Export Credit and Enhancement

Export credit and enhancement programs contained in the 1985 Farm Act should be funded at levels no less than those specified in the Act. Full use should be given to direct and guaranteed credit, including short-term and intermediate credit, blended credit, interest buy-down and export payment in kind.

The Commodity Credit Corporation (CCC) Export Credit Revolving Fund should be fully funded. Consideration should be given to the use of Section 32 funds for purposes of export enhancement, as originally intended by Congress.

Improved Management

Export credits and other enhancements should be designed with the objective of competitiveness constantly in mind. Credit policies must be flexible, and fit the needs of the importer, exporter or commodity or product served by the program. Export credit and enhancement programs should be developed on a case-by-case basis.

Longer-term orientation should be given to export credits. Repayment terms should be flexible. Consideration should be given to partial repayment of loans in foreign currencies and incentives for early repayment, such as interest rate reductions and rebates.

In addition, consideration should be given to the possibility of authorizing the Secretary of Agriculture to offer a program of foreign exchange risk protection to Commodity Credit Corporation export credit recipients. The proposal would require the Commodity Credit Corporation to assume all or part of the risk to CCC export credit recipient nations associated with a rise in the value of the dollar. At the time a nation is extended CCC export credits or credit guarantees, USDA would establish a maximum dollar-value repayment rate relative to some index of foreign currencies such as the Trade Weighted Index or the World Bank's Standard Drawing Rights (SDR). If the dollar rose in value over the term of the loan or loan guarantee repayment period, the borrowing nation would only have to repay based on the dollar's value at the time the loan was extended. The Commodity Credit Corporation would assume the cost associated with the rise in the value of the dollar.

Export-Payments in Kind (PIK), if used for any other purpose than for retaliation to counter unfair trade practices, should be offered across the board without prejudice to traditional customers of United States agricultural commodities and products.

The United States should seek to eliminate the use of mixed credits and tied aid by other countries, or directly counter such practices in the absence of progress in this area.

Other Funding

Funding for international programs of the

U.S. Department of Agriculture, including appropriations for the Foreign Agricultural Service, should be maintained at levels no less than those appropriated in Fiscal Year 1986, or at a level consistent with the expanded role of the Department of Agriculture, as recommended elsewhere in the Report.

The FAS overseas market development program should be protected from budget reductions contained in the President's Budget for Fiscal Year 1987. Spending in this area bears a cost-to-benefit ratio of 80 to 1. The advantages of reductions in such spending are clearly outweighed by the benefits of maintaining current levels of such funding.

New Authority

The Secretary of Agriculture should be required to undertake the following new responsibilities in regard to overseas market development:

(a) The Secretary should be authorized to make commodities owned by the Commodity Credit Corporation available to cooperator organizations, which shall be used by such cooperators in demonstration projects designed to expand markets for U.S. commodities and products.

(b) The Secretary should be authorized to supplement commodities provided under P.L. 480 Title I agreements with an additional amount of bonus CCC-owned commodities, not to exceed 10 percent of the volume of commodities provided under the Title I, which shall be sold for foreign currencies with proceeds used by cooperator organizations to cover local market development costs.

(c) The Secretary should assign an agricultural marketing specialist or agricultural trade officer in each overseas post that offers short or long term market potential and is not now covered by an Agricultural Trade Office, agricultural trade officer, or agricultural marketing specialist.

(d) The Secretary should expand and strengthen work with State Departments of Agriculture to better focus on states' work with companies in support of export efforts, including the stationing of marketing specialists in states or

regions as part of the normal rotation of these specialists between Washington, DC, and overseas locations.

(e) The Secretary should be authorized to expand the number of agricultural counselors, attaches, assistant attaches, and other diplomatic representatives of USDA posted overseas, to provide enhanced trade policy and international economic information consistent with USDA's expanded trade role as recommended in this report.

(f) The Secretary should be authorized to contract with individuals for personal services abroad without regard to any provision of law regulating the making, performance, amendment, or modification of contracts. Such individuals should not be regarded as employees of the United States government under any law including but not limited to the laws administered by the Office of Personnel Management.

IMPROVED MANAGEMENT OF U.S. INTERNATIONAL AND DOMESTIC ECONOMIC POLICY WHICH AFFECT AGRICULTURAL TRADE INTERESTS

Fiscal and monetary policies of the federal government should reflect a greater priority on achievement of national economic benefits through expanded trade. Past policies and practices resulted in an unprecedented appreciation in the value of the U.S. dollar, which, on a continuing basis, threatens to seriously undercut U.S. agricultural competitiveness. In the future, such policies should be crafted with due consideration of their impact on the domestic and international environment in which trade must take place.

Fiscal policy should continue to reflect the need to reduce the federal deficit. Domestic and international monetary policy should give greater emphasis to the need to stabilize exchange rates and establish a value for the U.S. dollar that assures efficient U.S. industries the ability to compete in international markets. Tax policy should be designed with an eye to maintaining a favorable economic climate for investment in technologies and enterprises that enhance U.S. competitiveness. Improved overall synchronization of such policies is required to

ensure a consistent and orderly international trade environment.

The Commission recommends:

1. Efforts continue to reduce the size of the federal deficit.
2. Policies continue to emphasize stabilization of wide fluctuation of exchange rates and establishment of a value of the U.S. dollar that complements U.S. competitiveness.
3. Tax incentives be provided to stimulate additional investment in research and basic infrastructure that enhances U.S. competitiveness.
4. Additional efforts be undertaken to coordinate fiscal and monetary policies, including tax policies, to provide a favorable economic climate for international trade.

Budget Reduction

Efforts to reduce the federal deficit should provide sufficient scope for the maintenance of necessary federal support of expanded U.S. agricultural exports and producer income.

Exchange Rate Policy

Efforts to stabilize fluctuations in exchange rates should be by negotiation with other major currency nations and by appropriate domestic monetary policy.

The Commission commends the Administration for its recent efforts to negotiate a regime to stabilize exchange rate fluctuations and to provide for reform of the international monetary system. The focus of such negotiations should be broader than that of the recent G-7 country negotiations, and should involve participation by a wider group of major currency countries. Substantial progress in such matters must be in evidence, prior to convening general negotiations on trade matters.

U.S. representatives to such negotiations should be attentive to the achievement of the following objectives:

- (a) Stabilization of U.S. dollar value at levels

in relation to the currencies of other major trading nations that assure efficient U.S. industries the ability to compete in international markets.

(b) Establishment of an ongoing mechanism to correct significant swings in exchange rate values. Due consideration should be given to renewed U.S. participation in an institutional arrangement with other major currency countries that would facilitate ongoing and orderly U.S. and foreign government monetary intervention to correct exchange rate values, subject to triggers as agreed upon.

(c) Agreement by major industrial nations to seek confluence of domestic economic policies, with an emphasis on expanded levels of non-inflationary private sector growth, liberalized government policy towards the private sector, and liberalized policy with respect to market access and trade.

Tax Policy

Proposals to reform current tax law should give appropriate emphasis to the maintenance of necessary incentives to stimulate additional domestic investment in research and basic infrastructure that enhances U.S. competitiveness. Greater attention should be given to the need to increase domestic gross savings. Additional domestic savings can reduce the nation's dependence upon foreign capital to fund investment, and, as a corollary effect, lessen the impact of such foreign capital inflows as a factor in dollar valuation. Consequently, consideration of incentives to increase domestic personal savings is recommended.

Policy Coordination

To provide greater accountability of the impact of U.S. monetary policy on trade and to ensure greater predictability of government policy in respect to exchange rates, legislation should be enacted to require the President and the Federal Reserve Board to take greater account of exchange rate influences on trade in determining appropriate fiscal and monetary policy that directly or indirectly result in changes in the value of the U.S. dollar.

The President should be required to include in his annual Economic Report his forecast of U.S. dollar valuation in the year covered by the Report, to include a statement as to the following:

- (i) The impact on trade of such dollar valuation;
- (ii) The need for correction in such dollar valuation; and
- (iii) The President's recommendations regarding U.S. and international action in relation to such dollar valuation.

The Federal Reserve Board should be required to report to Congress its forecast of the impact on U.S. trade of policy undertaken by the Federal Reserve Board in any meeting of the Federal Open Market Committee, within 30 days following the meeting of such Committee.

Appropriate attention should be given by the President to the appointment of forceful U.S. agricultural trade spokesmen who shall participate in high-level deliberations of the Administration in respect to the design and implementation of fiscal and monetary policy.

ADDITIONAL EMPHASIS ON VALUE-ADDED AND HIGH-VALUE AGRICULTURAL EXPORTS

The rate of growth of value-added exports is currently fast outstripping the rate of growth of raw commodity exports, as a percentage of total worldwide agricultural trade. Many nations, in both the industrial and developing worlds, have been quick to recognize the tremendous economic benefit to their societies of expanded levels of value-added and high-value product exports. U.S. exports of these products accounted for roughly one-third of total U.S. agricultural exports in recent years. By contrast, the percentage of value-added and high-value exports in total agricultural exports comprised 74 percent of French exports, 40 percent of Australian exports, and 51 percent of Brazilian exports in the same period.

The list of value-added products traded by our leading agricultural competitors — meats, dairy products, cereal preparations, refined sugar, canned fruits, vegetable oils and oilseed

preparations, to name a few – reads like a catalogue of issues of outstanding dispute between these countries and the United States. In most cases, the value-added product exports of these nations benefit from some form of direct government assistance. As a consequence, the European Community is now the world's leader in value-added agricultural exports, and exports of such products are becoming steadily more important in other countries such as Brazil, Australia, Canada, and Argentina.

It is clear that the United States needs to do much more to promote the export of value-added and high-value products.

The Commission recommends:

1. **Congress declare it to be the policy of the United States to expand exports of agricultural value-added and high-value products toward the goal of achieving parity between such exports and raw commodity exports, with an assurance that the highest level possible of raw commodity exports be obtained.**
2. **Greater use be made of currently authorized export promotion programs of the federal government to expand exports of value-added and high-value agricultural products.**
3. **A new commodity division be established within the Foreign Agricultural Service (FAS) or other agency, as elsewhere recommended in this report, to support value-added products not now covered by cooperator agreements and that a cooperator organization be created to assist the marketing role of the division.**

Value-Added Export Promotion

The Commission commends the Department of Agriculture for its recent efforts to include a greater variety of value-added and high-value agricultural products in programs designed to expand U.S. agricultural exports. Many such products, including red meats and poultry, face significant competition in international markets as a result of unfair foreign trade practices. Quotas on U.S. meat exports to

Japan, and the European Community Third Country Directive in respect to U.S. meat exports are examples of such practices. In addition, the Department of Agriculture should continue its efforts to further promote sales of value-added and high-value products, including expanded efforts in regard to export sales of United States specialty crops and forestry products.

The work of the value-added product division within the Foreign Agricultural Service, which is recommended for establishment by the Commission, should include market analysis for products in this category as well as market development. The cooperator organization, to support its work, should be broadly based and include export trading companies and export management companies dealing in food products, as well as manufacturers and distributors of individual brands and product lines.

REORIENTATION OF FOOD AID AND ECONOMIC ASSISTANCE TO SERVE LONG-TERM MARKET DEVELOPMENT OBJECTIVES

Food aid and foreign economic assistance programs of the United States government have a potential to better serve the objective of long-term market development for U.S. agricultural commodities and products. In recent years, however, this potential has been undercut by the conflicting priorities of the different federal agencies empowered to plan and administer food aid and foreign economic assistance programs and budgets.

Market development applications of these programs should have much greater emphasis in foreign economic policy. The food aid component of total U.S. economic assistance should be substantially increased, in keeping with our nation's preeminent position as the world's agricultural leader. Greater leadership in agriculturally-related foreign economic assistance should be given to the Secretary of Agriculture to ensure such programs imaginatively and effectively serve the long-term objective of foreign market development.

Stronger safeguards are necessary to ensure that foreign economic assistance programs of other agencies of government do not

directly counter the nation's agricultural trade interest, through development of competing foreign agricultural trade capabilities in like products. Approval of foreign agricultural research and technical assistance projects currently undertaken by colleges, universities, and other organizations within the United States and abroad which are financed using federal funds should be assigned to the Secretary of Agriculture.

The Commission recommends:

- 1. Explicit requirements be put into effect to ensure that food aid and foreign economic assistance programs serve U.S. agricultural market development interests.**
- 2. A "Food First" policy substantially reliant on food aid in lieu of cash-basis assistance be promulgated as the focus of U.S. economic assistance to the poorest nations of the world.**
- 3. The Secretary of Agriculture be assigned a greater leadership role in food aid and foreign agricultural economic assistance matters.**
- 4. Full use be given to all food aid programs currently authorized by law.**
- 5. Safeguards be put in place to ensure that U.S. foreign agricultural economic assistance programs do not run counter to U.S. agricultural trade interests.**
- 6. Foreign agricultural research and technical economic assistance projects undertaken by colleges, universities, and other organizations in the United States and abroad, which are financed using federal funds, be made subject to approval by the Secretary of Agriculture.**

Market Development Requirements

The Congress and the President should establish it to be the policy of the United States government to better utilize food aid and foreign economic assistance programs of the U.S. government to promote the development of markets for U.S. agricultural commodities and value added products.

Agencies and nongovernmental entities administering food aid and agriculturally-related foreign economic assistance programs, other than direct feeding or emergency food aid, should be required to certify that such programs serve direct market development objectives for U.S. agricultural commodities and value-added products.

This provision should include reporting requirements in respect to Title I/III, P.L. 480, Section 416 and "Food for Progress," sales for local currency, and USAID technical and economic assistance programs and other such programs of the Federal government.

"Food First" Policy

The Congress and the President should establish it to be the policy of the United States to provide economic assistance to foreign nations in the form of "food first," to the extent such practice does not displace ongoing U.S. commercial sales. As a specific goal, Congress should call upon the Administration to restore the proportion of food aid in its foreign economic aid budget from the current level of 18 percent to one-third of the total of all such assistance, the same proportion of food aid resources as provided in the period 1968-1972. The Commission believes that a shift in resources of this nature would advance the overall objectives of U.S. foreign economic assistance effectively, without additional cost to the U.S. Treasury.

In the event Congress does not approve funding for food aid programs as recommended above, the Commission urges Congress to consider providing such increases in funding by direct appropriation.

USDA Leadership Role

Congress or the President should designate the U.S. Department of Agriculture to be the lead agency within the federal government in all matters of agriculturally-related foreign economic assistance. The extension of new authority in any matter of agriculturally-related foreign economic assistance to any agency of government other than the U.S. Department of Agriculture should be prohibited, except as provided for above, or upon agree-

ment by the Secretary of Agriculture.

All agencies of government that have programs or take actions that potentially or actually affect agriculturally-related foreign economic assistance should be required to report to the Secretary of Agriculture semiannually on the extent to which such programs or actions affect agriculturally-related foreign economic assistance, the extent to which such programs or actions contribute to expanded U.S. agricultural exports, and the extent to which such programs or actions are consistent with the goals, objectives, and program recommendations contained in the most recent President's Annual Long Term Agricultural Trade Strategy Report, as recommended elsewhere in this report.

Within 30 days of receiving such reports, the Secretary of Agriculture should be required to report to the Chairmen of the Senate Foreign Relations, Finance, and Agriculture Committees and the Chairmen of the House Foreign Affairs, Ways and Means, and Agriculture Committees his views and recommendations in regard to such information furnished by other agencies.

In addition, agencies administering such programs should be required to coordinate their actions with those of the Secretary of Agriculture and subject their relevant programs and actions to approval by the Secretary of Agriculture.

To enhance the USDA's leadership role in such matters, Congress or the President should establish within the U.S. Department of Agriculture an Office of Food Aid Policy. The Director of such office should serve under the leadership of the General Sales Manager; develop in coordination with the Director of the Office of Agricultural Trade Policy Planning and Evaluation, a position recommended for establishment by the Commission, a comprehensive and coordinated market development-oriented USDA food aid and foreign economic assistance strategy; monitor the compliance of programs and policies of other agencies and related entities to ensure that such programs and policies are consistent with market development objectives; and serve as the Secretary of Agriculture's principal staff representative in deliberations of the Staff working group, Development Coordination Committee Subcommittee on Food Aid.

Utilize Existing Programs

Congress should require an immediate expanded implementation of Section 1110 ("Food for Progress") and Section 1111 ("Sales for Foreign Currencies") of the 1985 **'Food Security Act'**. The Secretary of Agriculture should be assigned primary responsibility in the administration of these programs.

Consideration should be given to the programming of all commodities under P.L. 480.

Safeguards

Congress should establish it to be the sense of Congress that funds of the federal government be denied to international programs supported by the federal government that result in an expansion of trade of commodities and products that are directly competitive with U.S. agricultural commodity and product exports.

Foreign Agricultural Research and Technical Assistance

Agricultural research and technical assistance programs in support of agriculture overseas, such as those financed using funds of the U.S. Agency for International Development (USAID) and other agencies, including multilateral agencies to which the United States contributes, can, if properly managed, provide direct and indirect benefit to U.S. agriculture, through enhanced demand for U.S. farm products, growth in developing country income, and cooperative relationships between U.S. and foreign governments and development-oriented organizations and institutions. Too often, however, such programs are conceived, initiated, and executed without regard for their impact on U.S. agricultural interests.

The U.S. Agency for International Development and its client agencies and organizations, including U.S. and foreign colleges, universities, and other entities, should be subject to greater accountability in their conduct of foreign agricultural research and technical assistance. If Federal funds are used for such purposes, such organizations, agencies and institutions should be required to subject their programs to approval by the Secretary

of Agriculture. USAID proposes to spend \$709.9 million in support of such activities in Fiscal Year 1987. In recognition of the tremendous exposure which our nation's taxpayers face in respect to such programs, it is only appropriate that the Secretary of Agriculture have a prominent role in the programming and spending of such funds.

THIRD WORLD COUNTRIES SHOULD BE TARGETED WITH A COMPREHENSIVE AND COORDINATED PROGRAM DESIGNED TO PROMOTE THE GROWTH OF DEVELOPING COUNTRY MARKETS FOR U.S. AGRICULTURAL COMMODITIES AND VALUE-ADDED PRODUCTS

United States agricultural export promotion strategy should be more effectively targeted to achieve growth in markets in developing countries. Three-quarters of the world's population live in such countries. 90 percent of world population growth will occur in these countries in the next 14 years. These markets offer tremendous opportunity for U.S. agriculture, provided that existing, often unmet, demand can be translated into effective demand for agricultural commodities, products and services which the United States produces.

Congress recognized this important factor in the world trading environment in the 1985 Farm Act, and created within the Executive Office of the President the position of Special Assistant for Agricultural Trade and Food Aid Development. The provision establishing the Special Assistant to the President calls upon the executive branch to identify at least 15 growth markets for U.S. agricultural commodities and products, and requires the Special Assistant to coordinate the programs and actions of various agencies to promote development of such markets. The Commission endorses the broad fundamentals of strategy underlying this provision of the 1985 Farm Act. Preliminary investigations by the Commission indicate a wide variety of developing nations which may be suitable for such targeting.

The Commission recommends:

1. The Secretary of Agriculture be re-

quired to coordinate, together with the Special Assistant to the President for Agricultural Trade and Food Aid Development, a pilot program of targeted third world country "growth market" development relying on a wide variety of currently existing federal programs dedicated to economic and agricultural development and market expansion.

2. The President appoint without delay a forceful agricultural representative to serve him as Special Assistant to the President.
3. The Congress and the President establish it to be policy of the United States to make better use of existing resources to aggressively and imaginatively develop new markets for U.S. agricultural commodities in Third World countries.

Third World "Growth Markets"

The Commission releases at this time its preliminary findings on significant growth markets for U.S. commodities and products, which has been prepared by the Foreign Agricultural Service of the Department of Agriculture, under instruction by the Commission.

The pilot program recommended by the Commission should be a joint undertaking of the Secretary of Agriculture and the Special Assistant to the President, consistent with the expanded role of the Secretary in trade matters as called for in this report. The Special Assistant should seek to place his influence behind recommendations of this Commission involving better use of food aid and foreign economic assistance programs to serve market development objectives. The Secretary of Agriculture, acting through offices recommended for establishment in this report, should have principal responsibility for development of long-term strategies for market development, as contained in relevant provisions of the 1985 Farm Act.

Appropriate recognition should be given to the fact that economic growth in developing countries significantly depends upon the market

access the United States and other industrialized countries accord the commodities and products of such countries. To be successful, strategies in respect to such countries must facilitate trade in both directions.

GREATER CONSIDERATION SHOULD BE GIVEN TO THE NEEDS OF U.S. AGRICULTURE IN THE DESIGN AND EXECUTION OF UNITED STATES FOREIGN POLICY

Foreign policy objectives of the federal government often run counter to progress towards expanding trade in agricultural commodities and products. Firm safeguards are needed to ensure that U.S. foreign policy serves, rather than detracts from, the achievement of national economic benefits through trade.

Foreign policy embargoes applied to U.S. agricultural exports have undermined the United States' reputation as a reliable supplier of food and fiber. Foreign policy considerations have interfered with efforts to establish a more equitable international trading environment for U.S. agricultural commodities and products.

The Commission recommends

1. **The federal government guarantee, except in time of national emergency, an absolute freedom from embargoes on U.S. agricultural exports to any nation, and an assurance of sanctity of contract in respect to export sales suspended under extraordinary circumstances.**
2. **Consideration be given to proposals designed to lift trade embargoes in respect to cash-basis sales of U.S. agricultural commodities and products, as have been recommended by certain representatives of the United States agricultural community.**
3. **Consideration be given to a normalization of nonstrategic bilateral agricultural trade relations with nonmarket economy countries.**
4. **Congress and the Administration resist pressure to subjugate legitimate trade interests of the United States to**

facilitate or enhance U.S. foreign policy interests, or those of other nations.

Freedom From Embargoes

Current authority contained in the Export Administration Act of 1985 and permanent authority established in the 1977 and 1981 Farm Acts provide substantial protection against the use of agricultural export embargoes, but they do not preclude their application under certain circumstances. In addition, current law provides little protection against the use of agricultural embargoes against small-country markets. Nor does it require the lifting of trade embargoes currently in effect.

Agricultural export embargoes have never been effective. It is not evident that such embargoes currently in effect are achieving the desired results, particularly since the commodities and products denied currently embargoed nations are freely available from other sources.

Attention has been given within the agricultural community to the possibility of cash-basis sales of U.S. agricultural commodities and value-added products to nations with which the United States has unilaterally severed trade relations, if such nations are able to purchase such commodities or products elsewhere in the world market. The Commission does not currently recommend that affected nations be enabled to import their products into the United States market. However, U.S. agricultural exporters should be authorized to ship U.S. agricultural commodities and products to such nations if such commodities and products are freely available elsewhere, in a manner the President determines to be consistent with the maintenance of United States national security.

Normalization of United States Trade Relations With Non-Market Economy Countries

The United States should actively seek renegotiation and extension of the U.S.-Soviet long-term grain trade agreement. Consideration should be given to a moratorium on Jackson-Vanik provisions of the 1974 Trade Act, subject to progress on the part of the Soviet Union in respect to emigration

policies. Consideration should be given to nondiscriminatory tariff treatment of products imported by the United States from countries not currently subject to most-favored nation status with which the United States presently enjoys a positive trade balance. Such consideration is in keeping with the need to maximize all avenues of trade in view of our current trade deficit problems. The Commission urges the government of the Soviet Union, and other governments currently affected by U.S.- imposed trade restrictions, to take such actions as have been suggested by the United States government to improve general relations, and thereby, provide the basis for future expanded, nonstrategic bilateral trade with the United States.

APPROPRIATE ATTENTION MUST BE GIVEN TO THE MAINTENANCE OF DOMESTIC POLICIES THAT SAFEGUARD OR ENHANCE U.S. COMPETITIVENESS IN WORLD MARKETS

Efforts to expand U.S. agricultural exports and maintain the competitiveness of U.S. agricultural commodities and products in domestic and international markets have suffered in recent years as a consequence of policies and practices of the federal government that directly and indirectly interfere with such efforts. Many such policies and practices result from an unevenness of fit between conflicting agendas of federal agencies, as has been addressed elsewhere in this report. In other instances, such policies and practices appear designed to inhibit competitiveness, and thus directly contradict the clear intent of Congress and the Executive Branch in regard to the need for expansion of U.S. economic benefits through trade.

United States domestic agricultural price support and related programs should be designed with the following objectives in mind:

1. *Commitment to a long-term policy with sufficient flexibility to allow for adjustments to changing world economic conditions, but which provides for a reasonably stable and predictable atmosphere for planning purposes.*
2. *Commitment to policies and programs*

which will allow U.S. agricultural commodities and products to be competitively priced in overseas markets.

3. *Commitment to provide the opportunity of profitability to U.S. agricultural producers in order to maintain the competitiveness of the U.S. farm and food system.*
4. *Commitment to preserve and protect our natural resources.*
5. *Commitment to continue strong support for agricultural research and education.*

Greater care must be taken to ensure that questions regarding the quality of U.S. agricultural exports are fully addressed by industry and government, with full assurance that such exports meet the tightest criteria possible consistent with the need to maintain quality in a competitive international trading environment.

Cargo preference laws relating to the shipment of government- directed sales of agricultural commodities and products should be subject to further review by Congress and the Administration. Such policy, if extended to include programs designed to enhance U.S. competitiveness, expands federal expense, with additional costs borne by the nation in terms of lost export sales. New solutions need to be found to address the problems of the U.S. maritime industry. The industry itself will not prosper if the net effect of such policies results in a decline in agricultural competitiveness.

The Commission recommends

1. **Congress and the Administration maintain the direction of policy in regard to domestic agricultural policy contained in the 1985 Farm Act, to the extent that such policy serves the long-term goal of U.S. competitiveness in domestic and world markets.**
2. **Congress and the Administration reassert the importance of long-term domestic policy that is pro-export and pro-trade.**
3. **Industry resolve to lay to rest, once and for all, questions of quality involving U.S. exports of agricultural com-**

- modities and products, in advance of congressional action.**
4. **Congress and the Administration re-open for review current cargo preference laws affecting U.S. agriculture, consistent with the objective to provide assistance to the U.S. maritime industry through means which do not involve exactation upon U.S. agriculture.**

United States Domestic Agricultural Policy

International price competitiveness is not inconsistent with the achievement of enhanced profitability and farm income in the domestic agricultural economy. Indeed, the Commission believes that a complementarity exists between domestic and export programs that can serve the goal of agricultural competitiveness and profitability. There is a direct relationship between domestic farm programs and U.S. agricultural competitiveness. Federal farm programs are a factor determining whether U.S. agriculture is competitive in world markets. Awareness of this fact – and a willingness to commit to flexibility in response to changing world economic conditions – improves the possibility that domestic programs serve long-term goals of competitiveness and profitability.

The Commission strongly endorses the direction of domestic agricultural policy contained in the 1985 Farm Act, and commends the Congress and President for their commitment to pro-export and pro-trade agricultural policy objectives. It urges the Congress to stay the course of policy contained in the Act.

Current difficulties facing the U.S. agricultural industry are clearly critical, and demand resolution. The Commission believes that the nation and the federal government have an important responsibility for maintaining an opportunity for profitability within agriculture, in keeping with the vital contribution of agriculture to the nation's economy. However, **Congress must resist pressures to achieve solutions to our nation's agricultural problems through resort to high-price support policies and autarkic measures designed to require adjustments in acreage and production to serve domestic demand solely.** Such policies would be

ruinous for our agricultural industry. Reductions in trade and production of the magnitude posed by such policies would clearly undermine the maintenance of the nation's agricultural production and delivery service, with concomitant adverse effects to our nation's consumers, industrial users of such products, and related industries. These industries and our domestic consumer demand must be maintained if United States agriculture is to continue to play the role in our national economy it currently plays. The recommendations contained elsewhere in this report hold a promise of improvement in our nation's agricultural trade performance. In the meantime, **assistance to U.S. domestic producers of commodities produced for or significantly reliant upon exports should be through means other than those which undermine U.S. price competitiveness or our current ability to serve international demand for the commodities and products we produce.**

Quality Considerations

The Commission recognizes that quality is a vital factor in maintaining U.S. competitiveness. The United States should always strive to maintain representative standards of quality, because the existence of doubt in regard to quality poses as great a threat to U.S. competitiveness as quality problems themselves. Industry should quickly resolve quality issues and report to Congress and the U.S. Department of Agriculture on needed changes. In the meantime, **Congress should resist pressure for precipitous readjustments of policy, pending the outcome of investigations called for in the 1985 Farm Act, or those underway within the agricultural industry itself.**

Cargo Preference

The Commission strongly opposes the concept of cargo preference as currently applied to food aid programs and, potentially, to other programs designed to expand sales of U.S. products.

The Commission recognizes that other interests may be served by cargo preference, but has seen little evidence that the objectives of the program are being met. While the Commission

does not take issue with the need for maintaining a strong U.S. maritime industry, it does not believe that cargo preference applied to exports of U.S. farm products is the appropriate means to achieve this objective.

The Commission commends elements within the agricultural community for their recent efforts to negotiate some resolution of this issue. However, it does not believe that the compromise position contained in the 1985 Farm Act is workable or that it is in the interests of U.S. agriculture. **Congress and the Administration should reopen the issue of cargo preference for additional review, consistent with the objective to provide assistance to the U.S. maritime industry through means that do not involve exaction upon United States agriculture.**

The Commission believes that U.S. agriculture would lend its support to the maritime industry to strengthen the industry if cargo preference requirements on agricultural products were eliminated. However, cargo preference is not supported by the U.S. agricultural community. Cargo preference requirements inflate the cost of U.S. agricultural exports, reduce the volume of such exports and, in recent years, have precluded operation of a blended credit program designed to enhance U.S. agricultural export sales. The method of financing the program should not be by appropriation to the U.S. Department of Agriculture. Appropriations to carry out the program should be provided by Congress directly to the Maritime Administration. The Commission encourages the U.S. maritime industry to cooperate with agricultural interests toward a goal of greater viability for both industries, as a first step, through exempting agricultural exports from existing cargo preference requirements.

CURRENT UNITED STATES AGRICULTURAL TRADE POLICY PROCESS SHOULD BE IMPROVED TO ALLOW FOR A STRENGTHENING OF AGRICULTURAL INTERESTS, CENTRALIZING OF DECISION-MAKING, AND MORE EXPEDITIOUS RESPONSE TO AGRICULTURAL TRADE NEEDS

The agricultural trade policy process is ineffectual, cumbersome, and slow. Quite often, the interests of agriculture are outweighed in the interagency and intercommittee process currently designated to coordinate the formulation and execution of national trade policy.

Agricultural interests need strengthened representation in the trade policy process. A greater leadership role should be provided to the U.S. Department of Agriculture in matters of agricultural trade and greater attention given to the designation within government of effective agricultural trade spokesmen.

Long-term agricultural trade policy objectives need to be developed, articulated, and made binding on the interagency process affecting agricultural trade.

The Commission recommends:

1. **A greater leadership role be given to the U.S. Department of Agriculture in matters of agricultural trade.**
2. **Greater attention be given to the designation within government of effective agricultural trade spokesmen.**
3. **Management improvements be undertaken within USDA to enhance its leadership role in trade matters.**
4. **Long-term agricultural trade policy objectives be developed and made binding on the interagency and intercommittee process affecting agricultural trade.**

USDA Leadership

The Congress should enact legislation to designate the U.S. Department of Agriculture as the lead agency within the federal government in all matters of agricultural trade, agricultural trade policy, and agriculturally-related foreign economic assistance.

The U.S. Trade Representative should continue to have leadership in international trade negotiations. The U.S. Department of Commerce and the International Trade Commission should continue in their current responsibilities and authorities in respect to the regulation of U.S. imports.

It should be the policy of the United States to prohibit the extension of new authority in any matter of agricultural trade or agriculturally-related foreign economic assistance to any agency of government other than the U.S. Department of Agriculture, except as provided for above or upon agreement by the Secretary of Agriculture.

All agencies of government that have programs or take actions that potentially or actually affect agricultural trade, agricultural trade policy, or agriculturally-related foreign economic assistance should be required to report to the Secretary of Agriculture semiannually on:

- (a) the extent to which such programs or actions affect agricultural trade, agricultural trade policy, or agriculturally-related foreign economic assistance;
- (b) the extent to which such programs or actions contribute to expanded U.S. agricultural exports; and
- (c) the extent to which such programs or actions are consistent with the goals, objectives, and program recommendations contained in the most recent President's Annual Long-Term Agricultural Trade Strategy Report, as elsewhere recommended in this report.

Within 30 days of receiving such reports, the Secretary of Agriculture should be required to report to the Chairmen of the Senate Foreign Relations, Finance, and Agriculture Committees and the Chairmen of the House Foreign Affairs, Ways and Means, and Agriculture Committees his views and recommendations in regard to such information furnished by other agencies.

Agencies administering such programs should be required to coordinate such programs and actions with the Secretary of Agriculture and subject such programs and actions to approval by the Secretary of Agriculture.

Designation of Effective Agricultural Trade Spokesman

Legislation should be enacted to eliminate the position of the Under Secretary for International Affairs and Commodity Programs and establish two new positions of Under Secretary for Trade and International Affairs, and Under Secretary for Commodity Programs.

International affairs responsibilities of the Under Secretary for International Affairs and Commodity Programs should be transferred to the Under Secretary for Trade and International Affairs (hereafter, the Under Secretary for Trade).

The Under Secretary for Trade should serve as a member of the Board of Directors of the Commodity Credit Corporation, and as a member of the Trade Policy Review Group and Development Coordination Committee, Subcommittee on Food Aid.

Additional subcabinet positions within the Department of Agriculture under the leadership of the Under Secretary for Trade should be established as follows:

- (a) Assistant Secretary for Trade Policy.
- (b) Assistant Secretary for Market Development.
- (c) Deputy Under Secretary for the Foreign Agricultural Service.
- (d) No more than three additional Deputy Assistant Secretaries.

Appropriate attention should be given to ensuring an important leadership role in agricultural trade matters for the President's Special Assistant for Trade and Food Aid Development, as was intended by Congress in the 1985 Farm Act, and consistent with recommendations contained elsewhere in this report.

Management Improvements at USDA

Legislation or administrative action should be taken to reorganize the international programs of the USDA as follows:

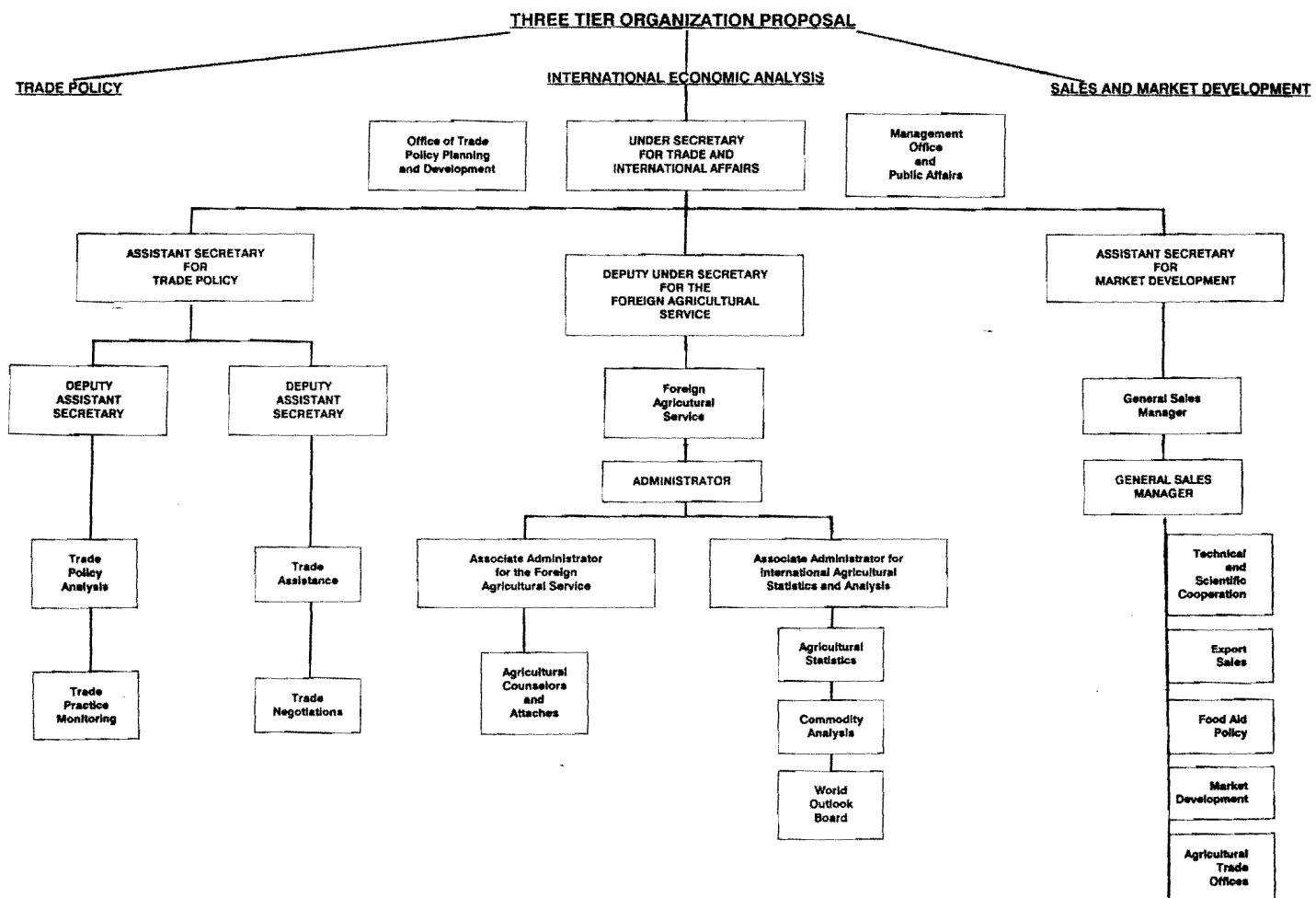
1. Transfer to the Foreign Agricultural Service the International Economics Division of the Economic Research Service (ERS) and the World Agricultural Outlook Board (WAOB).
2. Establish the General Sales Manager's Office as a separate entity within USDA. Transfer to the General Sales Manager's

Office the programs and responsibilities of other agencies as follows:

- a. Foreign Agricultural Service – export sales, market development activities, agricultural trade offices, P.L. 480, Section 416, and food aid programs.
- b. Office of International Cooperation and Development – all programs and activities.
- c. Office of Transportation – International Transportation Services Branch.
- d. Forest Service, Soil Conservation Service, Food Safety and Inspection Service and Animal and Plant Health Inspection Service, Federal Grain Inspection Service, and

other agencies of USDA – relevant export sales and market development, or technical assistance programs, as determined by the Secretary.

3. Transfer to the Assistant Secretary for Trade Policy the following programs of other agencies as follows:
 - a. Foreign Agricultural Service – trade policy development and analysis, assistance to agriculture in trade policy matters, and cooperation and assistance in trade negotiations with other Executive agencies of government.
4. Establish within the Department of Agriculture a reorganized international programs activity, as follows:



New Authority to USDA

The Secretary of Agriculture and Under Secretary of Agriculture for Trade should be required to undertake the following responsibilities:

(1) Ongoing unfair trade practice monitoring:

The Secretary should create within the Department of Agriculture an office the primary responsibility of which shall be to continuously monitor the trade-related policies and practices of other nations.

This office should prepare for the Secretary quarterly reports as to the incidence of unfair trade practices, including evidence of the disappearance of past practices or identification of new or expanded unfair policies or practices.

The Secretary should submit such reports within 15 days to the U.S. Trade Representative and the Chairmen of the Senate Foreign Relations, Finance, and Agriculture Committees and House Foreign Affairs, Ways and Means, and Agriculture Committees, together with his views and recommendations for improvements in trade and in technical capabilities for monitoring unfair trade practices and policies.

(2) Ongoing trade assistance:

The Secretary should create within the Department of Agriculture an office the primary responsibility of which shall be to continuously provide assistance to U.S. citizens and organizations damaged by unfair agricultural trade practices and policies, to include assistance in preparing cases for such entities before the U.S. Trade Representative, International Trade Commission, U.S. Department of Commerce, International Court of Trade, or other agency; assistance in providing and updating information regarding the incidence and severity of unfair trade practices and policies, and outreach assistance to U.S. citizens and organizations whose industries may be injured by unfair practices of which they are not aware.

The Secretary shall include in his reports on the incidence of unfair agricultural trade practices and policies an account of assistance provided by the U.S. Department of Agriculture to

affected U.S. citizens, organizations, and industries.

(3) Permanent and expanded trade negotiations activities:

The Secretary should create within the Department of Agriculture an office the sole responsibility of which shall be to provide technical assistance to the Secretary of Agriculture and the U.S. Trade Representatives in all matters pertaining to international negotiations on agricultural trade-related issues.

This office should be required to consult periodically with Agricultural Policy and Technical Advisory Committees jointly administered by the U.S. Department of Agriculture and the U.S. Trade Representative on matters pertaining to agricultural trade.

Long-Term Agricultural Trade Objectives

The Secretary of Agriculture should be required to prepare and the President to submit, together with his budget for any fiscal year, an annual Long-Term Agricultural Trade Strategy Report, establishing recommended policy and spending goals for U.S. agricultural trade and exports for one, five, and ten year periods, beginning on October 1, the beginning of the next fiscal year.

Such a report should include the following:

(i) Actual volume and value agricultural trade goals for every agricultural commodity and value-added product produced in the United States, for the period in question;

(ii) Recommended federal policy and programs to achieve such goals;

(iii) Recommended levels of federal spending on international programs and activities of the U.S. Department of Agriculture to meet volume and value agricultural trade goals;

(iv) Recommended levels of federal spending on programs and activities of agencies other than the U.S. Department of Agriculture to meet volume and value agricultural trade goals;

(v) Recommended long-term strategies for growth in agricultural trade and exports taking into consideration the following:

- (A) U.S. domestic competitiveness;
- (B) Export enhancement, including credits and export payment-in-kind;
- (C) Market development activities;
- (D) Foreign agricultural and economic development assistance activities;
- (E) Trade negotiations; and
- (F) International monetary and exchange rate policies.

Provisions of the President's Long-Term Agricultural Trade Strategy Report which relate to recommended levels of spending on international activities of the U.S. Department of Agriculture should be treated as the President's Annual Budget submission to the Congress for such programs, and should be submitted in addition to an annual budget request for other programs of the U.S. Department of Agriculture.

The President should include in his annual Long-term Agricultural Trade Strategy Report recommendations for such changes in legislation governing international programs of the U.S. Department of Agriculture as are required to meet the long-term goals established in the Report.

The President should be required, in his next annual Long-term Agricultural Trade Strategy Report, to amend his previous report to reflect any legislative changes or changes in Executive priorities or policies that may affect the long-term policy contained in his previous report.

The Secretary of Agriculture should be required to establish within the Department of Agriculture an Office of Agricultural Trade Policy Planning and Evaluation, the Director of which shall serve under the direct leadership of the Under Secretary for Trade and International Affairs. The office shall coordinate the preparation of the President's Annual Long-term Agricultural Trade Strategy Report, together with the Assistant Secretaries for Trade Policy and Market Development, and the Deputy Under Secretary for the Foreign Agricultural Service and monitor for the Secretary the compliance of other agencies with requirements of trade impact statements as elsewhere recommended in this report.

SECTION ONE:

MAXIMIZING POTENTIAL FOR

U.S. AGRICULTURE

IN WORLD MARKETS

TOWARD A PROGRAM OF EFFECTIVE COMPETITION

U.S. agriculture has gone through substantial adjustment in the past two decades. The 1970s were years of enormous opportunity. Floodgates of demand opened worldwide, generating export-led growth in America's food and fiber industries. **The early years of this decade have seen a reversal in the trends evident only a decade ago.** Competition has taken front seat to opportunity. Progress is hard won. **Conditions in the United States and the world economy have changed.** Our response to these changes will determine our ability and demonstrate our resolve to maintain our nation's agricultural trade leadership.

These are the new realities of agricultural trade.

The world is economically and politically interdependent. Our decisions alone cannot dictate our future. Forces exist which are beyond our nation's ability to control.

We place importance on our maintenance of a viable farm and food sector — we should expect no less of our competitors. **Persistent government intervention in agriculture and trade is a fact with which we must always contend.**

Opportunities that exist in the world market for the United States exist for all nations willing to compete with us. Growing global demand for food and fiber underwrites expanded world production of agricultural products. The benefits of this expansion will not accrue solely to the United States. **We are entering an era of worldwide agricultural expansion.**

The United States' economic dominance is at an end. The products of other leading trading nations displace our own on world markets. Competition is the order of the day.

These are the factors which we face. They are the benchmarks of our future opportunity. Recognizing them is an important first step. Beyond that, there is action. New realities call upon us to develop a new agenda of worldwide effective competition in agricultural trade and a new era of responsiveness to the vital economic needs of the nation.

**THE IMPORTANCE OF AGRICULTURAL EXPORTS
TO THE GENERAL ECONOMY**

THE IMPORTANCE OF AGRICULTURAL EXPORTS TO THE GENERAL ECONOMY

Agricultural exports are an important source of employment and growth in our nation's general economy, and constitute one positive factor in our continuing overall balance of payments difficulties. An understanding of the relationship between agricultural exports and employment and growth in the wider economy is fundamental to the recognition of the importance of farm exports to the nation as a whole. While this is a relationship that is well understood by most economists, and well known to most farmers and businessmen engaged in agriculture, it is not generally recognized outside of agriculture. Consequently, the message must be stressed.

A viable agriculture is a fundamental element of a healthy U.S. economy. Agricultural trade is a vital factor in maintaining a viable agriculture. The recent decline in agricultural exports has undermined growth in the agricultural sector and the general economy. Therefore, efforts to expand agricultural trade stand to benefit not only agriculture, but also the general economy.

Agriculture's Role in the General Economy

The farm and food system of the United States is both the nation's largest industry and its major employer. In 1983, this industry generated \$650 billion in economic activity, an amount equal to 20 percent of the nation's Gross National Product (GNP). It employed 24 million persons. The assets of farming and agribusiness accounted for more than 50 percent of the combined assets of the manufacturing, retailing, and wholesaling industries of this country. **The sheer scale of the agricultural industry makes it a vital factor in the maintenance of a healthy U.S. economy.**

Agriculture's role in the general economy is both diverse and complex. While there is wide recognition of the impact that changes in agriculture have on the farm sector, few recognize the effect those changes multiply forward to the

rest of the economy. Farming has a major impact on the U.S. economy through the multiplier effect. In 1984, farmers spent over \$140 billion on production inputs. About 80 percent of this total was for goods and services purchased off the farm. USDA has estimated that a \$1 increase in farm income can stimulate an addition \$3 to \$4 in economic activity. Real net farm income for the last four years has declined by about 45 percent from the previous 10 years. A return of farm income to that level would add approximately 1.5 to 2 million jobs to the economy, assuming farmers spend that additional income on farm inputs.

It is important to understand that farmers are but one segment of a vast farm and food system. The agricultural industry is an intricate chain of transactions beginning at the farm gate and culminating in the consumption of finished food, fiber and industrial products in domestic and international markets. Along this chain, raw commodities are transformed into consumer goods and value is added to the economy in the form of profits and employment. A variety of related industries play an important role — processors of food and fiber, industrial and equipment manufacturers, shippers and handlers, grain merchandisers, retail outlets for food and fiber products, bankers and financial institutions, and chemical and fertilizer manufacturers, to name just a few.

Employment figures bear this out. While 3.4 percent — or roughly three million persons — of the nation's total work force is directly engaged in production agriculture, a full 20 percent of the total work force — 21 million Americans — are employed in other occupations that comprise the total farm and food system. These 21 million Americans have a stake in changes occurring in agriculture, even if they are not aware of the fact. Conversely, farmers suffer when economic conditions cause contractions in the marketing system upon which they rely. Farmers and workers in related industries therefore have a common bond in maintaining both a healthy agricultural system and a healthy general economy.

TABLE I
THE CONTRIBUTIONS OF AGRICULTURAL
INDUSTRIES TO U.S. GNP & EMPLOYMENT, 1982

<u>Industry</u>	Contribution to Gross National Product (billion \$)	Contribution to Employment (full- time equivalent workers) (million)
Farming	71.1	3.0
Inputs to Farming, Processing, Distribution	177.7	4.1
Manufacturing	135.6	5.5
Distribution	242.5	11.5
 TOTAL FARM AND FOOD SYSTEM	 \$ 626.9	 24.1
Percent of U.S. Total	20.2%	24.5%

SOURCES: Alden C. Manchester, Economic Research Service, USDA.
The Farm and Food System, Major Characteristics and Trends. Resource Paper No. 1, Emerging Policy Issues.
Michigan Extension Service.

U.S. Dept. of Commerce, Bureau of Economic Analysis,
Business Conditions Digest. December 1984.

Agriculture Is An Efficient Industry

U.S. agriculture has, over the years, been clearly one of the most efficient industries in the world. The recent strength of the dollar has masked this fact, but American agriculture's track record speaks for itself.

U.S. agriculture has many inherent strengths that accord it a distinct advantage over most competitors in the world market. The United States has the largest expanse of productive land anywhere in the world. Its temperate, moist climate is unequaled anywhere. An extensive river system flows through the heart of our nation's most productive land. These waterways are complemented by an efficient interstate highway and rail system to form a total transportation complex that can put Rotterdam closer to St. Louis, in terms of freight rates, than Buffalo. Our agriculture is blessed with competitive, enterprising farmers who control a vast asset base, are well supplied, and can respond to changing markets. It also boasts the most developed and competitive agribusiness infrastructure in the world, comprising all stages of production, from farm input suppliers, to elevators, transportation, processing, marketing, and retailing. All of these factors makes U.S. agriculture truly unique. **There are other efficient producing nations – France, for example – but none on the scale of the United States, and with all of its various advantages.**

The efficiency of a nation's agriculture can be measured in several ways. One way is to look at how much its citizens pay for their food. **U.S. consumers spend less than 16 percent of their disposable income for food and beverages (Chart I) – the lowest in the world and still declining.** In only one other developed country, Canada, do consumers spend less than 20 percent of their income for food. In the European Community, consumers spend nearly 26 percent of their disposable income for food and beverages. Many consumers, such as those in China, Russia, and elsewhere, spend well over half of their income for food and beverages alone. In addition, the quality, variety and year round availability of U.S. food products are unequaled elsewhere.

The U.S. has the smallest percentage of the work force actually involved in farming of any other country in the world – about 3 per-

cent. The world's second largest grain producer, the USSR, has over 20 percent of the work force in farming. Even France has approximately 10 percent of the work force on the farm.

U.S. farmers are quick to use new technology. Growth in the productivity of U.S. farmers has been impressive (measured by output per manhour). Chart III plots farm productivity growth since 1950 versus nonfarm productivity growth. **Productivity in farming has increased at nearly four times the rate that nonfarm productivity has in the U.S. economy.** This is one of the main factors that has kept U.S. farm products competitive in world markets, at least until recently. The best interests of both farmers and consumers would appear to be in building on the long run strengths of our food system to ensure continued long run growth.

The Importance of Trade for Agriculture

Agricultural trade is vital to the maintenance of a healthy U.S. farm and food system. Two of every five acres harvested in this country are devoted to the production of crops that are exported. **All of the major crops produced in the United States – corn, wheat, soybeans, cotton, rice, poultry, cattle, to name just a few – are export commodities.** And, while export sales are a more important source of earnings for some commodities – wheat for example – than for others, the producers of every crop grown in this country have some stake in maintaining and improving U.S. export performance.

The stake is equally as great for related industries. **The USDA's Economic Research Service estimates that the \$36.6 billion of agricultural exports in 1982 generated a total of \$81.8 billion in total business activity.** The additional \$45 billion reflects the contribution of various supporting activities required to package and transport products from the farm gate to the final point of delivery.

Other sources cite an even greater contribution by agriculture. Some have estimated that every dollar earned on agricultural exports initially creates another \$1.05 worth of output in the U.S. economy, an immediate multiplier effect of 2.05. Over the longer term, every dollar of agricultural exports adds \$2.50 to \$3.00 to the

CHART I
CONSUMER EXPENDITURES FOR FOOD
(% DISPOSABLE INCOME)

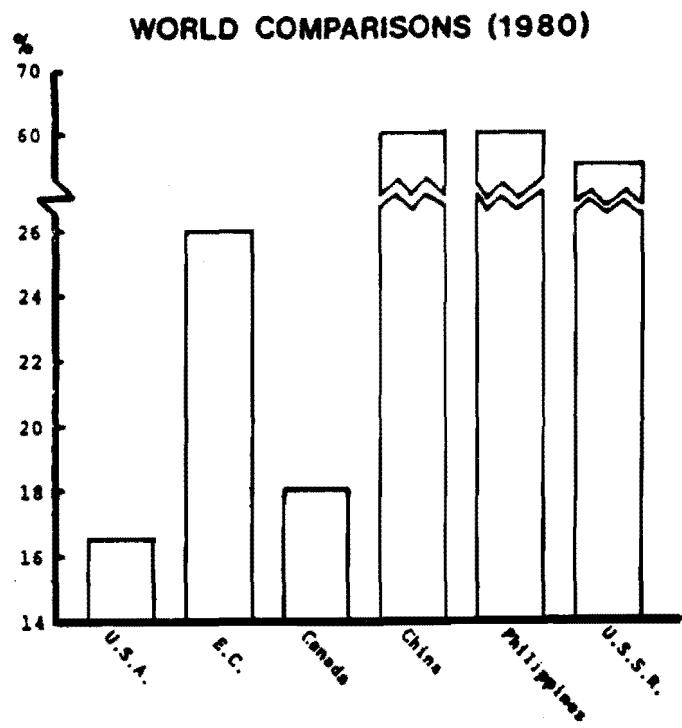
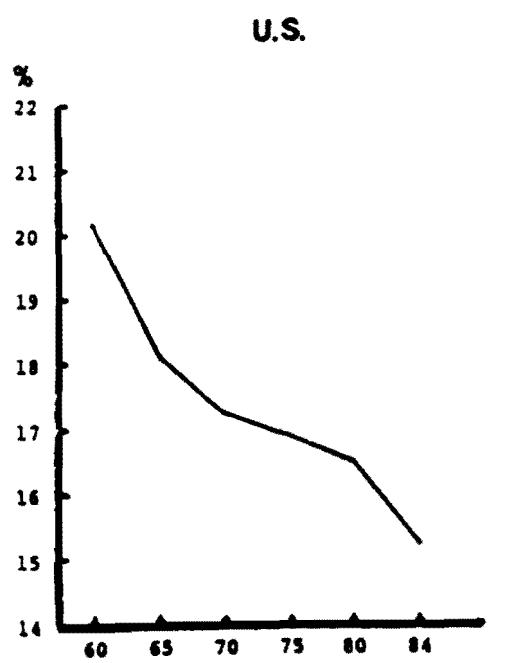
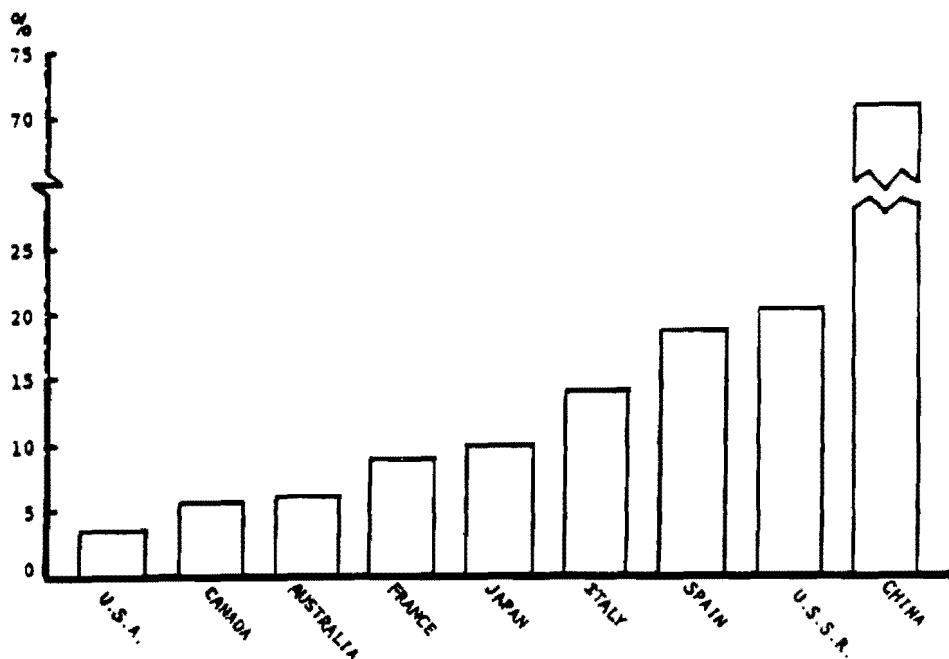
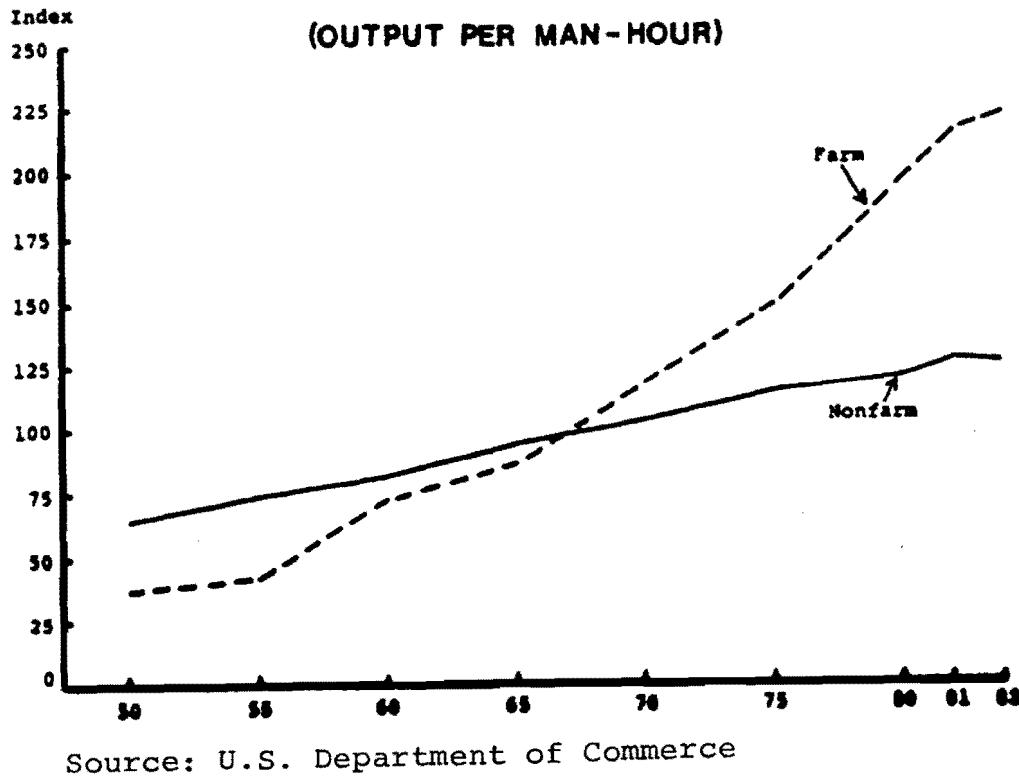


CHART II
PERCENT WORKFORCE ON FARM



SOURCE: U.S. Department of Commerce

CHART III
PRODUCTIVITY INDEX: FARM vs. NONFARM IN THE U.S.
(OUTPUT PER MAN-HOUR)



Source: U.S. Department of Commerce

GNP. They report that total earnings on agricultural commodities exported in 1984 generated an additional \$40 billion in short-term economic activity, but will yield a total contribution of \$133 to \$152 billion to the nation's gross national product over the longer term.

Each one billion dollars' worth of agricultural exports directly creates jobs for a total of 30,000 to 35,000 workers. 1.14 million workers in the agricultural and food sector were required to produce, process, and sell the \$38 billion worth of agricultural exports in 1984. However, the multiplier effect of these exports created an additional 60,000 jobs per billion dollars of exports in the nonfarm and food sector. Therefore, agricultural exports in 1984 created total employment for 3.4 million people in the general economy.

The 1970s brought U.S. agriculture into the world markets in a major way. In the late 1960s, the U.S. exported between 17 and 19 percent of feedgrain, wheat and soybean production. By 1983, this percentage had grown to 46 percent. U.S. wheat, feedgrain and soybean acreage devoted to exports increased rapidly in the 1970s, and peaked at 98.2 million acres in 1980. This represented 41 percent of the total harvested acreage base for these important crops. At the peak of the export boom, the U.S. exported over 60 percent of its wheat production, over 40 percent of its soybean production, and over a third of its feedgrain production.

Agricultural exports accounted for only 12-14 percent of total farm income in the late 1960s. In 1981, exports reached 30 percent of total farm income. Exports of crops alone accounted for around 27 percent of crop receipts in the late 1960s, but climbed to over 50 percent of crop receipts by the early 1980s (Table II).

Chart V indicates that crop acres dedicated to domestic use have not increased since 1960. The growth in agricultural crop production since 1960 reflects growth in exports. **The high level of U.S. crop acreage devoted to exports supports millions of farm and nonfarm workers, and requires billions of dollars of direct input expenditures for fertilizers, chemicals, machinery, and other items.** The loss of GNP, employment, tax revenues, and production efficiency that would be associated with loss of export markets and the consequential idling of

nearly 100 million acres devoted to exports and would have a severe impact throughout agribusiness and the entire U.S. economy.

Declining Exports Affect the Total Economy

The recent decline in U.S. agricultural exports has seriously undermined growth in the agricultural sector, with a corresponding negative impact on the rest of the general economy. The value of U.S. agricultural exports stood at over \$45 billion in calendar year 1981. The value of these exports this year, according to current estimates, will be under \$28 billion, the lowest level in a decade.

Numerous factors account for this serious decline.

1. The rapid appreciation and continued strength of the U.S. dollar in relation to other world currencies;
2. Slow economic growth in industrial and middle income countries;
3. Third world indebtedness;
4. Increased foreign production of food and fiber;
5. Soviet purchasing decisions;
6. Unfair foreign competition; and
7. Poor U.S. domestic and international policies.

As remarkable as this decline has been, perhaps more remarkable has been the effect of the decline on U.S. economic activity. **The decline in agricultural exports since 1981, adjusted for changes in world markets, has resulted in lost sales of farm commodities and products totalling 84.7 million tons, valued at \$30.2 billion.** In absolute terms, the dollar loss has been even greater — \$53.9 billion. Billions of bushels of commodities and millions of tons of products lost markets between 1980 and 1985, the equivalent of 7 years of carryover stocks of wheat, 10 years of carryover stocks of corn, and 33 years of carryover stocks of soybeans produced and marketed in the United States. **The damage to farmers wrought by these circumstances is only too evident — price-depressing surpluses have lowered net farm income and eroded agriculture's investment base. But the effect of the decline in exports goes much deeper.**

CHART IV
AGRICULTURAL EXPORTS AS A % OF FARM INCOME

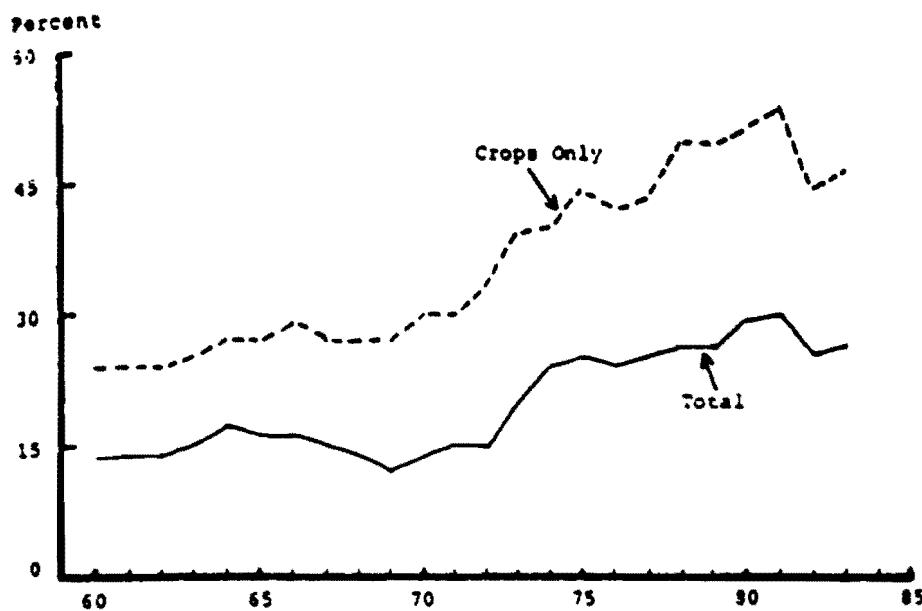


CHART V
HARVESTED ACRES: GRAIN AND SOYBEANS
(Acres Exported - Acres Used Domestically)

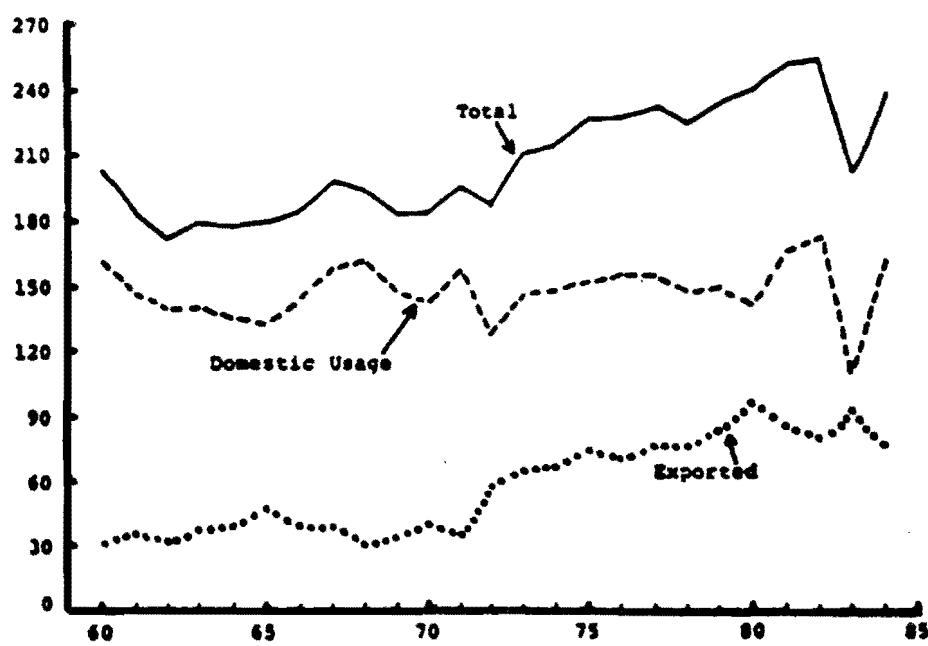


TABLE II

Ag Exports & Farm Cash Receipts --
Calendar Year -- Bil. \$

<u>Cal. Yr.</u>	Total Exports As % of <u>Cash Receipts</u>			Crop Exports As % of <u>Crop Receipts</u>		
	<u>Ag Expts.</u>	<u>Cash Receipts</u>	<u>%</u>	<u>Crop Expts.</u>	<u>Cash Receipts</u>	<u>%</u>
1960	\$ 4.8	\$ 34.2	14%	\$ 3.7	\$ 15.3	24%
61	5.0	35.2	14	3.8	15.7	24
62	5.0	36.5	14	3.9	16.3	24
63	5.6	37.5	15	4.3	17.4	25
64	6.3	37.3	17	4.7	17.4	27
1965	\$ 6.2	\$ 39.4	16	\$ 4.7	\$ 17.5	27
66	6.9	43.4	16	5.4	18.4	29
67	6.4	42.8	15	5.0	18.4	27
68	6.3	44.2	14	5.0	18.7	27
69	6.0	48.2	12	5.2	19.6	27
1970	\$ 7.3	\$ 50.5	14	\$ 6.4	\$ 21.0	30
71	7.7	52.7	15	6.7	22.3	30
72	9.4	61.1	15	8.3	25.5	33
73	17.7	86.9	20	16.1	41.1	39
74	22.0	92.4	24	20.2	51.1	40
1975	\$ 21.9	\$ 88.9	25	\$ 20.2	\$ 45.8	44
76	23.0	95.4	24	20.6	49.0	42
77	23.6	96.2	25	21.0	48.6	43
78	29.4	112.9	26	26.4	53.7	49
79	34.7	131.8	26	31.0	63.2	49
1980	\$ 41.2	\$ 140.5	29	\$ 37.4	\$ 72.7	51
81	43.5	142.6	30	39.1	73.3	53
82	36.6	144.8	25	32.7	74.6	44
83	36.1	138.7	26	32.3	69.5	46
84	37.8	141.8		33.6	69.1	
1985	\$ 29.0	\$ 143.5		24.7	73.9	
86	26.5	130-134*		22.2*	60-64*	

(*) Estimates for Fiscal Year '86

The general economy has been deprived of economic activity that would have added over \$300 billion to the nation's gross national product. In the absence of any downturn in exports, millions of jobs could have been added to the economy. Government costs of farm programs could have been slashed. Economic recovery could have buoyed the agricultural industry, generating wealth and advancing the welfare of the nation.

The sharp drop in U.S. agricultural exports is contributing to severe income declines and financial stress in much of production agriculture and large parts of agribusiness. Farm income hit a 12-year low of \$16.1 billion in 1983 despite direct payments from government of approximately \$9.3 billion.

The trend in nominal farm income has generally been downward since the early 1970s (Chart VI). **Real net farm income during the four years ending in 1985 will be down about 45 percent from the average of the previous ten years.** The major stress or reduction in income seems to be concentrated in many of the grain producing areas in the Midwest and South.

Chart VIII presents a picture of farm debt and farm returns on total equity. The farm debt/equity ratio had been essentially stable at around 20 percent until 1981. Since 1981, the debt/equity ratio has risen to over 27 percent, or a 35 percent increase.

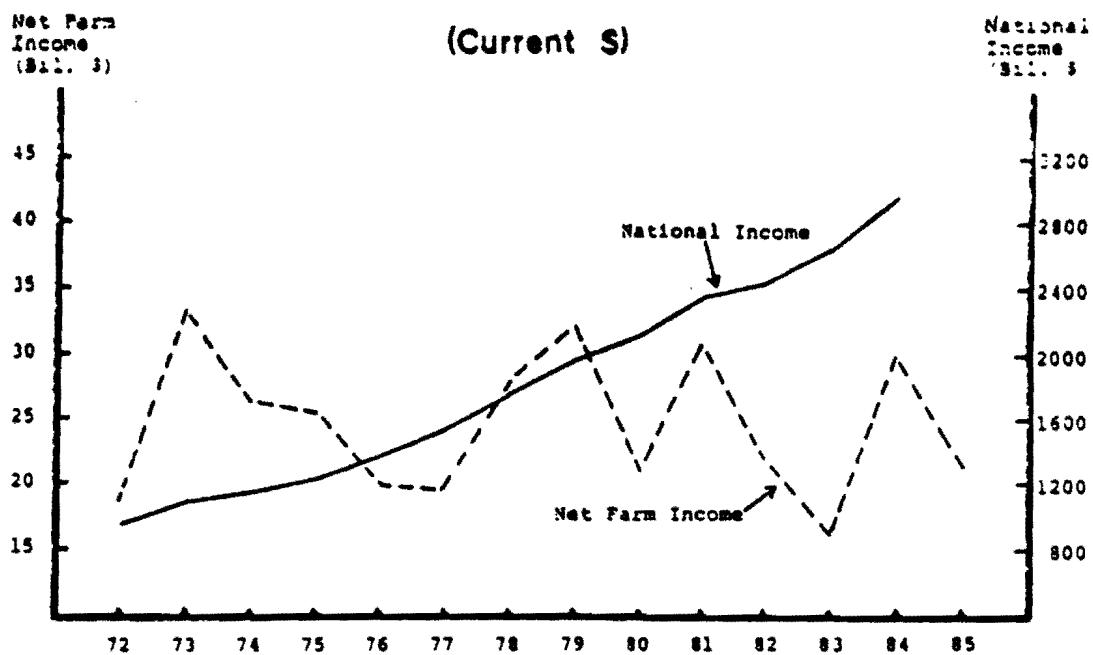
This, accompanied by high interest rates, has resulted in financial stress on those farms where debt is more concentrated. The Federal Reserve computes a return on total equity for agriculture. Note that **for the last four years the return on equity in farming has actually been negative.** This is the first time we can recall this happening since the 1930s. Therein lies much of the problem in agriculture today: declining farm income – high debt levels – high interest rates – diminished repayment ability. This has occurred despite massive infusion of government funds into agriculture attempting to control production and support price.

The drop in farm income has seriously impaired the 18 percent of the economy and 23 percent of the work force employed in agribusiness, supplying farmers, or processing and

marketing farm products. The two tables in this section show recent trends in capacity utilization for the industries for which we can calculate capacity, and sales for some of the other industries. Many of the input industries are particularly hard hit. In the farm equipment area, sales of smaller tractors declined 54 percent between 1980 and 1984, sales of four-wheel drive tractors declined 65 percent, and sales of self-propelled combines declined about 70 percent. It is estimated that in the fourth quarter of 1984, the farm equipment industry was operating at only 8 percent of capacity. Capacity utilization in the pesticide manufacturing industries dropped from 80 percent in 1979-80 to an estimated 47 percent in 1984-85. Fertilizer manufacturers are also hard hit, particularly those of anhydrous ammonia and potash. Although the capacity utilization in the anhydrous ammonia industry dropped to 70 percent in 1982-83 and has since recovered somewhat, 23 percent of the industry has closed down, a fact which is not apparent in the statistics. Capacity utilization in the potash industry fell from 86 percent in 1978-79 to 64 percent in 1983-4. An estimated 22 percent of the potash industry has been closed. **Factory closings, of course, represent layoffs, lost jobs, closed businesses and industry consolidation.**

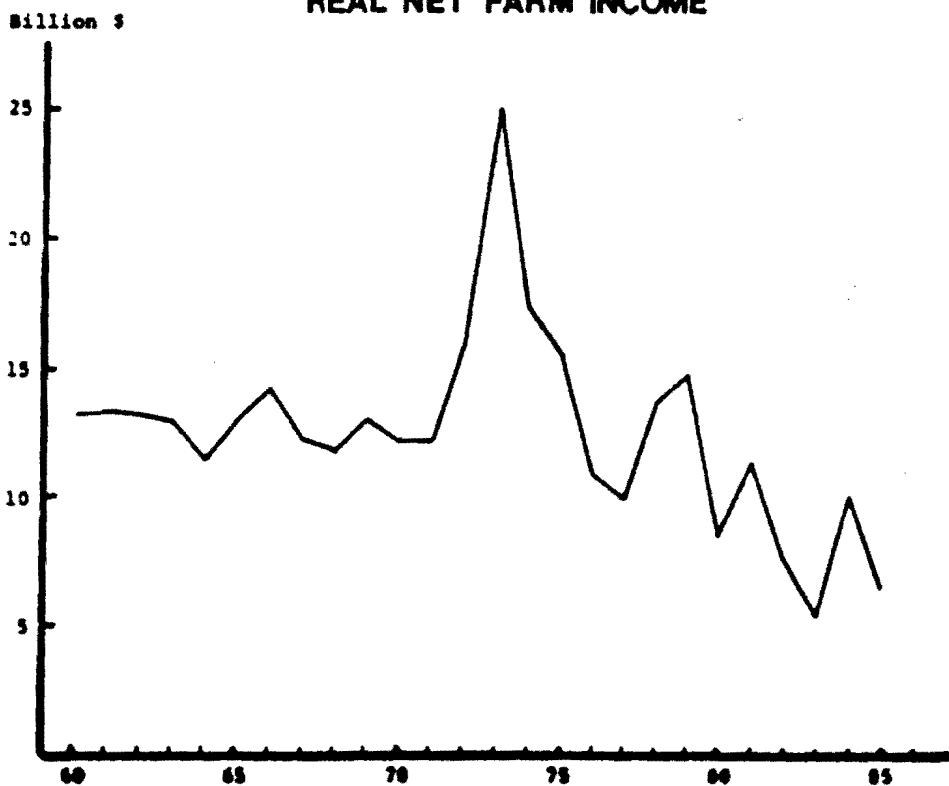
Some of the processing industries have also been adversely affected. Soybean crushing plants were operating at only 64 percent of capacity in 1984-85, compared with 80 percent five years earlier. Rail car and barge loadings are off fairly sharply from earlier periods, even though the domestic payment-in-kind program and movement of grain out of reserves did result in some increased activity in 1983-84. Grain exporting firms were operating at just over 50 percent of capacity in 1984-85, down from 77 percent five years earlier. Even meat processing industries have been badly hurt. The industry return on sales has been at a low level for three years, again forcing plant closings and more industry consolidation. These numbers represent job losses over large segments of the American economy, as our competitors abroad use inputs and employ people to increase their production at the expense of the United States.

CHART VI
NET FARM INCOME vs. NATIONAL INCOME



SOURCE: U.S. Department of Agriculture, Department of Commerce

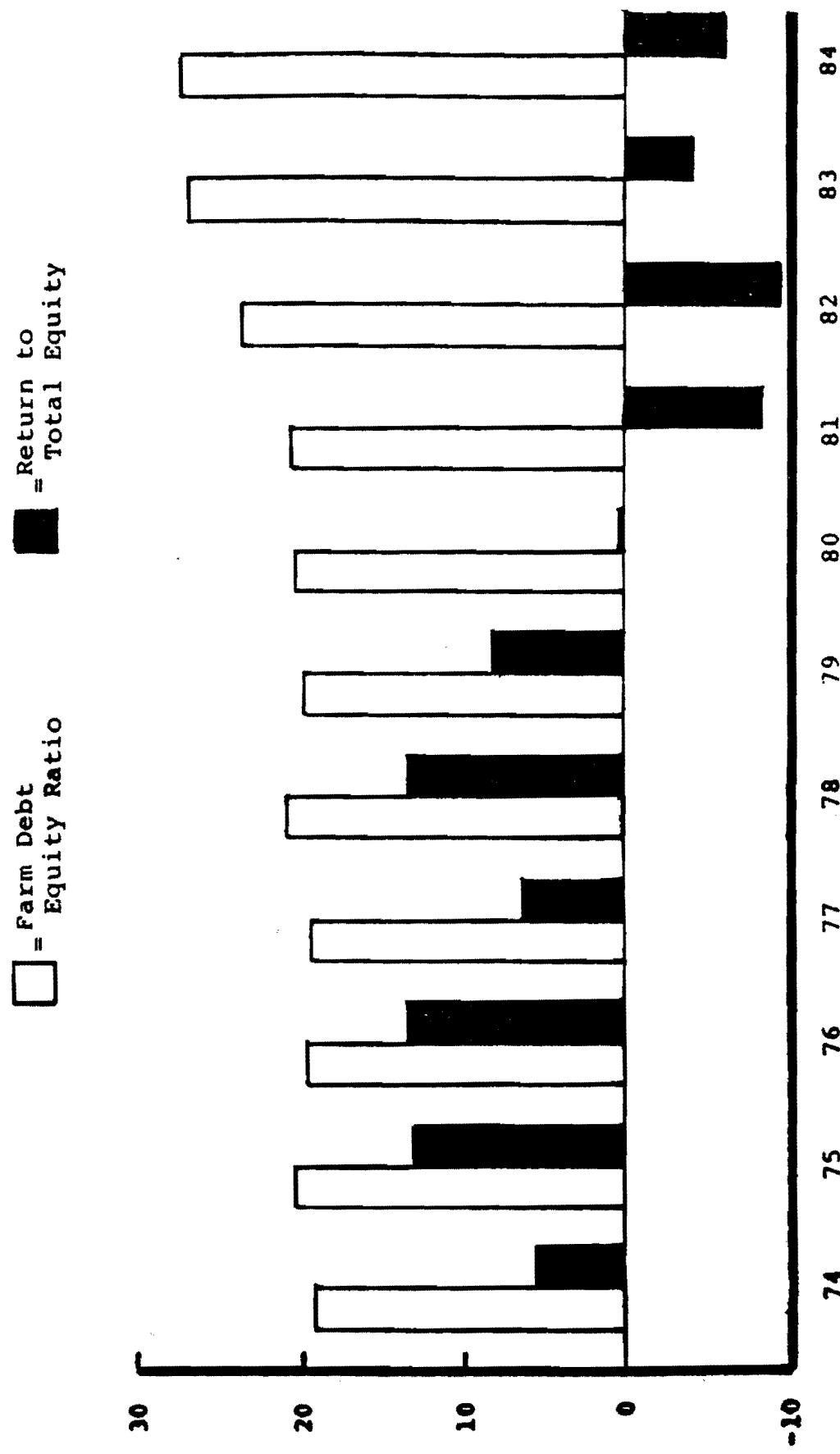
CHART VII
REAL NET FARM INCOME



Source: U.S. Department of Agriculture

CHART VIII

FARM DEBT EQUITY RATIO vs. RETURN TO TOTAL EQUITY



SOURCE: Board of Governors of the Federal Reserve System

TABLE III
Agribusiness Plant Utilization Measures
Input Suppliers

	<u>1978/79</u>	<u>1979/90</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
Pesticide manufacturing capacity utilized ¹		80%	78	73	80	54	47
Farm machinery purchases ²							
2 WD Tractors	131	128	109	95	70	66	60
4 WD Tractors	8.9	11.3	10.9	9.8	6.8	5.2	3.8
S-P Combines	32	33	26	27	16	13	10
Fertilizer manufacturing anhydrous ³							
Production	17.2	18.9	19.5	17.7	13.8	15.1	
Capacity	22.0	20.4	20.8	20.9	19.8	17.8	
% Utilization	78%	93	94	85	70	85	
P ₂ O ₅ wet process							
Production	9.2	9.9	10.3	7.8	8.6	9.9	
Capacity	9.6	9.8	10.4	10.7	10.7	10.9	
% Utilization	96%	101	99	73	80	91	
Potash							
Production	2.3	2.5	2.4	2.2	1.9	1.6	
Capacity	3.2	2.9	2.9	2.9	2.8	2.5	
% Utilization	72%	86	83	76	68	64	

¹ USDA: Economic Research Service (Cal. Year)

² USDA: Economic Research Service (Cal. Year) (000 Units)

³ Million Short Tons (Fiscal Year)
USDA Economic Research Service
Tennessee Valley Authority -- Marketing and Distribution Economics Section

TABLE IV
Agribusiness Plant Utilization Measures
Processing Industries

	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
Soybean processing capacity utilized ¹	80%	79	72	70	71	64
Flour milling capacity utilized ²	90.5%	87.5	86.5	87.1	92.8	86.1
Meat processing R.O.S. ³	1.0%	1.0	0.7	0.9	0.8	
Transporation						
Rail Cars						
Capacity ⁴	133.0	132.7	134.9	130.4	129.6	124.5
Carloading ⁵	27.5	29.3	26.3	24.9	26.1	27.3
Barges						
Loadings ⁶	31.1	37.5	37.9	41.1	40.8	36.3
Grain export capacity utilized ⁷	77%	68	67	55	55	55

¹NSPA

² Census Bureau
Based On 6 Day Runtime Capacity

³ American Meat Institute (Cal. Year)

⁴ Capacity: Million Tons Annually

⁵ Carloadings: (000 Cars Weekly Average) (Cal. Year)
Source: USDA: Economic Research Service

⁶ Annual Monthly Loadings (Mil. Bus.)
Source: USDA: Economic Research Service

⁷ Source: Sparks Commodities (Cal. Year)

Efforts to Expand Agricultural Trade Will Benefit Farm and Nonfarm Industries Alike

Farmers and workers in many other industries share a common stake in maintaining a viable agriculture. All these industries have suffered as a result of recent declines in agricultural exports. Consequently, all will benefit from efforts to expand agricultural trade.

The Commission's recommendations point the way to substantial improvement in this situation. The program proposed by the Commission is an aggressive and balanced approach to the trade problems affecting U.S. agriculture. It is a program that matches the tremendous challenges — the problems and opportunities — which U.S. agriculture will face in world markets for years to come. It is a program of effective competition, unleashing the potential of U.S. agriculture in world markets through a reorganization of U.S. trade policy, a revitalization of market development, a re-alignment of our relations with competing nations, and reorientation of our food aid programs to expand the nation's response to world hunger and develop effective demand for farm products in developing countries.

The Congress has already taken steps across a broad array of fronts to address the issue of declining exports. The farm bill approved by Congress last year is one aspect of these efforts. However, greater emphasis must be placed on restoring U.S. agriculture to a position of preeminence in world markets. The direct benefit of such efforts will not only be realized by farmers, but will stimulate employment and create wealth throughout the economy.

**WORLD AGRICULTURE AND TRADE
IN A GLOBAL ECONOMY**

WORLD AGRICULTURE AND TRADE IN A GLOBAL ECONOMY

Agriculture has always been an important part of the world's economy, but its importance and role in a global economy has been greatly enhanced during the past two decades with rapid growth of world trade in agricultural products. Growth in agricultural trade has given us a global food and agricultural system for the first time in history. The development of a new world food and agricultural system, however, has ushered in a new era of economic and trade interdependency among countries that has greatly altered agriculture's role.

Since the end of World War II, gradual and significant integration of the global economy has transformed the world from a collection of individual nations loosely tied together by a small amount of international trade to a more highly integrated group of nations tied more closely together through international trade. World economic growth since the 1960s has greatly increased world trade in all commodities and greatly integrated the agricultural sectors of the individual countries into the world's economy.

The growing economic interdependency of countries has been viewed alternately with euphoria and dismay as changing world economic conditions have influenced their fortunes. On the one hand, the new world agricultural system has increased world food security by making food supplies from food surplus countries available to food deficit countries. On the other hand, the new system has made the food surplus countries more dependent upon world markets for a growing share of their total food production. **An increasing number of countries have come to depend upon world markets for an increasing share of their food supply or as market outlets for their farm products.** The United States, as the world's dominant economy, has been intimately involved as its agricultural exports have expanded rapidly over the past decade and made its farmers more dependent upon world markets for a growing share of their total production. **In a world made more interdependent by economic growth and changes in economic events, the welfare of the American farmer and foreign consumers has become irre-**

versibly tied together.

As world markets for agricultural products have grown during the 1970s, continued world economic growth has induced changes in production and consumption of food products in all countries and, necessarily, altered the patterns of trade flows between countries.

Agricultural Production in a Global Economy

Aggregate agricultural production has grown in all major groupings of countries – developed, less developed and centrally planned – since 1975, but the most rapid rates of growth in per capita production have been in the developed and centrally planned countries.

Since 1975 the developed market economies have had high rates of growth in total agricultural production and low rates of population growth. Consequently, their rapid rates of increases in per capita supplies (0.8 percent per year) have resulted in a rapidly growing excess supply of food products for export or for stock accumulation. The highest rates of growth in per capita food production in the developed countries have been in Western Europe (1.6 percent) with lower rates in the U.S. (0.4 percent), Canada (1.0 percent), and Oceania (0.8 percent). Growth in per capita food production in Japan and Republic of South Africa has been negative during the period (Table 1).

The centrally planned economies of the world have combined a relatively favorable rate of growth of aggregate agricultural production with very low rates of population growth to attain significant increases in per capita production. The highest rate of increase in per capita food supplies of all countries was in China (4.0 percent). Per capita food supplies also increased in Eastern Europe and in the U.S.S.R., but at a much slower pace – production per capita increased only 0.7 percent per year in the U.S.S.R. during the 1975-84 period.

The less developed countries have had the most rapid rates of growth in aggregate agricultural production of all major groups of countries. However, their rates of growth in

TABLE 1
WORLD AGRICULTURAL PRODUCTION PER CAPITA 1975-1985

Producing Regions	1975	1978	1981	1984	1985 ¹	Growth
						<u>1975-1984</u> Percent
Developed Countries	99	103	105	107	107	0.8
United States	97	101	108	101	105	0.4
Canada	92	102	108	102	104	1.0
Western Europe	99	104	108	116	113	1.6
Japan	103	101	89	95	95	-0.9
Oceania	97	106	101	105	104	0.8
Republic of South Africa	96	102	108	85	89	-1.2
Centrally Planned Countries	95	103	98	111	110	1.5
Eastern Europe	97	104	99	107	104	1.0
USSR	89	102	89	95	98	0.7
China	101	104	118	150	146	4.0
Less Developed Countries	98	102	102	102	103	0.4
Latin America	97	102	106	105	106	0.8
Africa	100	99	99	91	94	-0.9
Near East	97	100	94	95	100	-0.3
North Africa	98	100	93	96	101	-0.3
West Asia	97	101	95	93	94	-0.5
South Asia	100	104	101	105	104	0.5
East Asia	94	102	106	113	113	1.9
World	98	102	101	101	104	0.6

¹ Preliminary

Source: World Indices of Agricultural and Food Production 1975-1984.
Economic Research Service, USDA, June 1985.

per capita production were the lowest (0.4 percent) due to their rapid rates of population growth and to the actual decline in food production in Africa and the Near East since 1975. Food production per capita increased in Latin America (0.8 percent) South Asia (0.5 percent) and East Asia (1.9 percent).

World aggregate food production has increased faster than population since 1970 so that aggregate food production per person for the world has grown. The distribution of this output, however, has not been even among countries and has resulted in food surpluses developing in some countries and food deficits in others. Growth in demand for food in many high-income developing countries has been faster than production because of the high income elasticity of demand for food which increases (with growth in consumer income) food consumption faster than production. The resulting food deficits in these rapidly growing countries plus a desire for different types of food has spurred rapid growth in import demand and gains in world food trade. Food demand has grown slower than production in most developed countries because of a low income elasticity of demand which increases (with growth in consumer income) food consumption very slowly as consumer income rises. Such conditions have tended to increase exportable supplies in the developed countries and to make their agricultural sectors highly dependent upon the food deficit countries, primarily in the rapidly growing less developed and centrally planned countries.

Agricultural production in the United States has grown unevenly over the past two decades but has generally outpaced domestic consumption, so that food surpluses have tended to increase. During the 1960s, agricultural production grew relatively slowly, primarily due to supply control programs that withdrew millions of acres from production in order to maintain relatively high farm prices. During the 1970s, supply control programs were lifted when world demand for food increased rapidly, raising farm exports and farm prices and encouraging the return of idle acres of land into cultivation. The decline in world demand for food since 1981 because of worldwide recession has failed to slow the rate of growth in agri-

cultural production, even with declining exports and farm prices.

Many reasons are cited for continued high production levels in the United States in the 1980s. For one thing, investment during the 1970s to expand production capacity to meet a growing export demand came on stream in the early 1980s. Also, U.S. government programs which provided high target prices and loan rates, and acquired stocks in periods of falling prices prevented market price signals from reaching American farmers. The end result has been a continued growth in production. This situation, combined with declining foreign demand for U.S. commodities, resulted in rapid stocks accumulation. Production was slowed temporarily by the Payment-In-Kind (PIK) program in 1983, but resumed with the end of this program. Downward pressure on farm product prices and farm income has resulted.

The relatively high loan rates for U.S. products during the 1981-85 period not only provided misleading signals to U.S. producers but also to foreign producers. The relatively favorable world prices, supported partly by U.S. price policy, have been an incentive to expand output in other countries because of investments in new output-increasing technology that had been made during the decade of high and stable world prices. Downward adjustments in foreign production have also been very slow in the 1980s.

World Trade in Agricultural Products

World markets for agricultural products have played an increasingly important role in the global economy during the past 20 years. **World imports of agricultural products have grown faster than world food production since 1960 and have greatly increased the number of countries entering world trade and the proportion of aggregate food production entering international trade.**

The volume of farm products traded has increased almost 4 percent per year during the 1970 decade while production grew about one half this rate. The value of agricultural imports increased from \$63 billion in 1970-72 to \$242 billion in 1980-84 (Table 2), or by almost 12 percent per year. During this period, the number of

countries willing to depend upon world markets, either as a source of food supply or as a regular outlet for their production, has increased significantly. The number of countries regularly importing or exporting more than one million tons of food increased from about 20 in 1965 to over 40 in 1980. In the 1960s, about 10 percent of the world's agricultural production entered world trade. By 1980, this percentage had increased to 17 percent before decreasing to about 13 percent during the current world economic recession that has sharply curtailed world demand and imports of agricultural products.

The central feature of international trade in agricultural products is that trade has been primarily between the economically advanced countries. This fact is not surprising, since the principal determinant of demand and trade is income. The higher the level of income per capita, the greater the likelihood that trade will occur between countries.

Historically, the developed countries have been the major markets for agricultural products as well as the major source of food supplies. For example, in 1970-72 they accounted for 72 percent of the world's imports—primarily Western Europe, 51 percent (Table 2)—and supplied a major proportion (over 58 percent, Table 3) of the exportable supplies. During this past decade, however, economic growth in the developing and centrally planned countries increased their import demand for food products faster than in the developed countries (5.5 times versus 3.2 times) so that the developed countries' share of the world's market for agricultural products fell to 59 percent in 1980-84 (Table 2). The developed countries, however, continued to be the major source of food supply for the world—increasing their share of world exports from 58 to 64 percent in 1980-84 (Table 3).

The largest growth market for imports during this past decade has been in the Near East and in the U.S.S.R. These rapidly growing agricultural markets were increasingly supplied with exports from the developed countries (Table 3). The developed countries supplied 58 percent of world exports in 1970-72 and 64 percent in 1980-84. The largest gainers in terms of exports were the European Community members (EC-10) and the United States. The market

share for the EC rose from 25.4 percent to 31.7 percent while that for the United States increased from 14.6 percent in 1970-72 to 18.4 percent in 1980-84. These gains in world market shares by the EC and United States were at the expense of the countries in Eastern Europe, Africa, the Near East and the U.S.S.R. The latter group increased their shares of world agricultural imports during this period while simultaneously reducing their share of world agricultural exports.

The United States, as the world's largest exporter of agricultural products, has increased its share of the world market for agricultural products from 14.2 percent during 1968-72 to 18.4 percent in 1980-84. The U.S. market share reached its highest point (about 19 percent) during the world food crisis in 1973-74 and in the rapid growth period for world agricultural trade in 1980-81 when agricultural trade reached its peak of \$233 billion, more than four times the 1968-72 level of \$53 billion (Table 4). The U.S. market share for 1985 is estimated to have fallen to about 17 percent.

The pattern of world agricultural trade has undergone some major changes over the past 20 years in response to world economic growth that has wrought changes both in the demand for and supplies of food products. The changing nature of world import demand for agricultural products has greatly altered the commodity and country composition of world agricultural trade, as well as the market potential for particular countries and commodities.

The most significant change in the commodity composition of world agricultural imports over time has been the relative increase in the importance of food and feed imports at the expense of imports of raw agricultural materials for industrial use. There has been a definite shift away from the heavy emphasis on imports of raw materials for industrial use that characterized the 1950s and 1960s to an emphasis (in the 1970s and 1980s) on products for direct consumption such as food grains, fruits, vegetables, nuts and meats, or on imports that are used in livestock production such as feeds, feed products and feed grains. The value of food products (primarily animal products and food grains) increased \$108 billion from 1970 to 1980, while the import value of agricultural raw

TABLE 2
MAJOR MARKETS FOR AGRICULTURAL PRODUCTS 1970-72 AND 1980-84

MAJOR IMPORTERS	IMPORTS		MARKET SHARE	
	1970-72	1980-84	1970-72	1980-84
	BILLION US DOLLARS		- PERCENT -	
<u>Developed Countries</u>	<u>45.44</u>	<u>144.11</u>	<u>72.0</u>	<u>59.5</u>
North America	7.98	22.83	12.6	9.4
United States	6.56	18.18	10.4	7.5
Canada	1.42	4.65	2.2	1.9
Western Europe	32.16	101.27	51.0	41.8
EC-10	26.83	85.78	42.5	35.4
Others	5.33	15.49	8.5	6.4
Japan	4.65	17.79	7.4	7.3
Australia, NZ & S. Africa	0.65	2.22	1.0	1.0
<u>Centrally Planned Countries</u>	<u>6.86</u>	<u>32.92</u>	<u>10.9</u>	<u>13.6</u>
Eastern Europe	3.71	8.90	5.9	3.7
USSR	2.82	19.41	4.5	8.0
China, et al.	0.33	4.61	0.5	1.9
<u>Less Developed Countries</u>	<u>10.78</u>	<u>65.07</u>	<u>17.1</u>	<u>26.9</u>
Latin America	2.54	12.67	4.0	5.2
Africa	1.75	10.26	2.8	4.2
Near East	2.23	21.66	3.6	9.0
Asia	4.26	20.48	6.7	8.5
WORLD	63.08	242.21	100.0	100.0

Source: FAO Trade Yearbook 1975 and 1984

TABLE 3
MAJOR EXPORTERS OF AGRICULTURAL PRODUCTS 1970-72 AND 1980-84

MAJOR EXPORTERS	EXPORTS		MARKET SHARE	
	1970-72	1980-84	1970-72	1980-84
	BILLION US DOLLARS	- PERCENT -		
<u>Developed Countries</u>	<u>33.44</u>	<u>140.72</u>	<u>58.1</u>	<u>63.6</u>
North America	10.54	48.55	18.3	22.0
United States	8.39	40.62	14.6	18.4
Canada	2.15	7.93	3.7	3.6
Western Europe	18.26	77.60	31.7	35.1
EC-10	14.66	70.16	25.4	31.7
Others	3.60	7.44	6.3	3.4
Japan	1.03	2.72	1.8	1.2
Australia, NZ & S. Africa	3.61	11.85	6.3	5.3
<u>Centrally Planned Countries</u>	<u>5.28</u>	<u>15.02</u>	<u>9.2</u>	<u>6.8</u>
Eastern Europe	2.56	7.64	4.5	3.5
USSR	1.51	2.61	2.6	1.2
China, et al.	1.21	4.77	2.1	2.1
<u>Less Developed Countries</u>	<u>18.83</u>	<u>65.41</u>	<u>32.7</u>	<u>29.6</u>
Latin America	8.00	30.65	13.9	13.9
Argentina	1.49	5.80	2.6	2.6
Brazil	2.22	9.37	3.9	4.2
Africa	3.90	8.82	6.8	4.0
Near East	2.32	6.30	4.0	2.8
Asia	4.61	19.64	8.0	8.9
WORLD	57.55	221.15	100.0	100.0

Source: FAO Trade Yearbook, 1975 and 1984.

TABLE 4
UNITED STATES' SHARE WORLD AGRICULTURAL TRADE 1968-85

YEAR	WORLD EXPORTS BILLION US DOLLARS	U.S. EXPORTS	U.S. SHARE OF WORLD EXPORTS - PERCENT -
1968	45.27	6.51	14.4
1969	47.65	6.15	12.9
1970	51.56	7.49	14.5
1971	55.30	7.96	14.4
1972	65.84	9.74	14.8
1973	95.28	18.15	19.1
1974	118.02	22.55	19.1
1975	123.19	22.35	18.1
1976	132.92	23.64	17.8
1977	152.55	24.78	16.2
1978	172.49	30.57	17.7
1979	204.31	36.21	17.7
1980	233.07	42.84	18.4
1981	232.91	45.05	19.3
1982	212.54	38.24	18.0
1983	208.74	37.54	18.0
1984	218.49	39.39	18.0
1985	180.0*	30.0*	16.7*

*Estimates

Source: FAO Trade Yearbook 1971 - 1984

materials increased only about \$32 billion (Table 5). The value of feed products alone increased \$30 billion.

The developed countries accounted for 60 percent of the growth in world imports of food and feed products during 1970-80. The less developed countries accounted for 25 percent of the growth in world imports of food products but only 15 percent of the growth in feed imports. On the other hand, the centrally planned countries accounted for 25 percent of the growth in world feed imports and only 15 percent of the trade in food products.

World Commodity Markets

World trade in food products has expanded rapidly during the last decade. Most of this growth has occurred since 1975 – about 60 percent between the mid-1970s and 1983-84. Global food trade accelerated during the 1970s as a combination of income growth, policy changes that encouraged consumption, and weather-related harvest shortfalls that stimulated imports in a number of countries and regions. Since 1980 the growth in world food trade has slumped and the volume in some foods has actually declined.

Grains, primarily wheat, rice, corn, barley and sorghum, are a major component of food trade, accounting for one-fifth of the value of total agricultural trade in recent years.

Total grain trade rose from 112 million tons in 1970 to 234 million in 1984. During this period, trade accounted for over one-third of the increase in global grain consumption. The share of total grain consumption traded rose from 10 percent in 1970 to 14 percent in 1984. Thus, one out of every seven tons of grain used by people or animals during the past 15 years originated in a different country from where it was consumed.

The major food importing countries are more widely distributed throughout the world among the developed, less developed, and centrally planned countries than are exporting countries (Table 6). The major food exporting countries are basically a handful of developed countries, with the United States the leading exporter of a number of food products. Developing countries such as Argentina, Brazil and Thailand are major exporters

of commodities such as grains, oilseeds, feeds, meat, and tropical products such as coffee, cocoa, and tea. Exports are strongly concentrated among a few countries and regions: five countries account for over 90 percent of total wheat exports; seven for over 90 percent of feed grains; four for over 95 percent of the soybeans; six for over 80 percent of beef; and only two regions for over 85 percent of all pork exports.

World Trade in Wheat

World trade in wheat has undergone major changes in recent years because of the slow growth in demand in the developed countries and the rapid growth in imports in the developing and centrally planned economies. Since 1960, wheat imports have grown rapidly in the less developed and centrally planned countries, while imports in the developed countries (except for Japan) have declined (Table 7). Most of the decline in wheat imports in the developed countries occurred in Western Europe (primarily the European Community), while most of the increases in world wheat imports have occurred in the less developed countries in the Near East (West Asia and North Africa) and in the U.S.S.R. and China.

The market share of world wheat imports for the developed countries declined from about 31 percent in 1970-72 to 17 percent in 1980-84. During this time the market share of wheat imports for the less developed countries increased from 41 percent in 1970-72 to 45 percent in 1980-84 – primarily because of the rapid increase in wheat imports of the countries in West Asia and North Africa. The rapid increase in wheat imports of 10 million tons in these countries between 1970-72 and 1980-84 represented 42 percent of the total increase of 24 million tons for all of the less developed countries and boosted the market share of world wheat imports from 41 to 45 percent.

Similar changes occurred in the imports of the centrally planned countries. As in the less developed countries, wheat imports increased 24 million tons between 1970-72 and 1980-84, and boosted the market share for these countries from 27 to 38 percent of world trade (Table 7). Sixty-nine percent of this increase in wheat imports was accounted for by the U.S.S.R. alone.

TABLE 5
ORIGIN OF GROWTH IN WORLD AGRICULTURAL IMPORTS 1970-80

Import Commodity Group	Increase in World Imports 1970-80	Annual Rate of Growth	Share of Growth by Importing Regions		
			Developed	Less Developed	Centrally Planned
BILLION US DOLLARS			- PERCENT -		
<u>Food Products</u>	<u>108</u>	<u>16</u>	<u>60</u>	<u>25</u>	<u>15</u>
Animal	34	15	70	25	5
Food Grains	22	16	60	25	15
Fruits, Nuts & Veg.	9	11	70	20	10
Sugar & Honey	13	17	30	38	32
Beverages & Spices	17	14	82	8	10
Wine & Beer	5	15	79	7	14
Vegetable Oils ¹	4	16	57	32	10
Miscellaneous	4	15	55	35	10
<u>Feed Products</u>	<u>30</u>	<u>16</u>	<u>60</u>	<u>15</u>	<u>25</u>
Feeding Stuff	6	14	71	10	18
Feed Grains	16	17	48	19	33
Oilseeds ²	8	15	75	13	12
<u>Agricultural Raw Materials</u>	<u>31</u>	<u>13</u>	<u>66</u>	<u>18</u>	<u>16</u>
Tobacco	3	11	69	15	16
Rubber	3	13	64	15	21
Fibers	10	11	46	19	35
Vegetable Oils ³	4	17	66	27	7
Crude	11	14	80	20	5
Total of Above Commodities	170	15	65	20	15
Residual ⁴	29	16	86	9	5
World Ag. Trade	198	15	68	18	14

¹Includes SITC 421, 091.4 and 1/2 of 221.4

²Includes all of SITC 221 except 1/2 of 221.4

³Includes all of SITC 422

⁴Includes commodities not separately listed and/or whose value is less than \$5 million

Source: FAO Trade Yearbook 1971 - 81

TABLE 6

MAJOR IMPORTERS OF BASIC COMMODITIES TRADED IN THE WORLD

WHEAT	FEED GRAINS	SOYBEANS & PRODUCTS	BEEF	PORK
U.S.S.R.	Japan	European	United States	United States
China	U.S.S.R.	Community	U.S.S.R.	Japan
Japan	European	Japan	Japan	U.S.S.R.
Egypt	Community	Spain	European	European
Eastern Europe	Mexico	Taiwan	Community	Community
European Community	Taiwan	Mexico	Egypt	Hong Kong
Brazil	South Korea	Eastern	Canada	
	Eastern Europe	Europe	Saudi Arabia	
	Saudi Arabia	U.S.S.R.		
		India		

MAJOR EXPORTERS OF BASIC COMMODITIES TRADED IN THE WORLD

WHEAT	FEED GRAINS	SOYBEANS & PRODUCTS	BEEF	PORK
United States	United States	United States	European	European
Canada	Argentina	Brazil	Community	Community
Australia	Canada	Argentina	Australia	Eastern
France	South Africa	European	Argentina	Europe
Argentina	Thailand	Community	New Zealand	
	Australia		Brazil	
	France		Canada	

TABLE 7

MAJOR MARKETS FOR WHEAT AND WHEAT FLOUR IN 1970-72 AND 1980-84

MAJOR IMPORTERS	<u>IMPORTS</u>		<u>MARKET SHARE</u>	
	1970-72	1980-84	1970-72	1980-84
- MILLION METRIC TONS -		- PERCENT -		
<u>Developed Countries:</u>	18.16	18.39	31.4	17.3
North America	0.02	0.04	0.	0.1
Western Europe	13.12	12.35	22.7	11.6
EC-10	11.78	10.45	20.4	9.8
Others	1.34	1.90	2.3	1.8
Japan	4.90	5.76	8.5	5.4
Australia, New Zealand & South Africa	0.12	0.24	0.2	0.2
 <u>Centrally Planned Countries</u>	 15.78	 40.03	 27.3	 37.6
Eastern Europe	5.49	5.40	9.5	5.1
U.S.S.R.	4.46	21.28	7.7	20.0
China, et. al.	5.85	13.35	10.1	12.5
 <u>Less Developed Countries</u>	 23.92	 48.02	 41.3	 45.1
Latin America	6.31	11.87	10.9	11.2
Africa	3.36	9.73	5.8	9.1
Near East	6.22	15.89	10.7	14.9
Asia	7.03	11.53	13.8	9.9
 World	57.86	106.44	100.0	100.0

Source: FAO Trade Yearbook, 1975 and 1984.

TABLE 8

MAJOR EXPORTERS OF WHEAT AND WHEAT FLOUR
IN 1970-72 AND 1980-84

MAJOR EXPORTERS	EXPORTS		MARKET SHARES	
	1970-72	1980-84	1970-72	1980-84
- MILLION METRIC TONS -				
<u>Developed Countries</u>	50.46	95.94	83.9	89.2
North America	33.00	41.13	54.8	56.8
United States	19.75	41.66	32.8	38.7
Canada	13.25	19.47	22.0	18.1
Western Europe	8.89	23.40	14.8	21.8
EC-10	5.00	21.42	8.3	19.9
Others	3.89	1.98	6.5	1.8
Australia, New Zealand	8.52	11.12	14.1	10.3
Japan, South Africa	0.05	0.29	0.1	0.3
 <u>Centrally</u> <u>Planned Countries</u>	 7.33	 4.40	 12.2	 4.1
Eastern Europe	1.04	2.27	1.7	2.1
U.S.S.R.	6.29	2.10	10.5	2.0
China, et. al.	0	0.03	0	0
 <u>Less Developed Countries</u>	 2.38	 7.16	 3.9	 6.7
Latin America	1.81	6.10	3.0	5.7
Argentina	1.73	5.96	2.9	5.5
Africa	.09	.01	0.1	0
Near East	.23	.80	0.4	0.8
Asia	.25	.25	0.4	0.2
 World	60.17	107.52	100.0	100.0

Source: FAO Trade Yearbook, 1975 and 1984.

In recent years, with the world wheat trade at roughly 100 million tons, the U.S.S.R. and China have accounted for a third of world imports. Over the past six years the U.S.S.R., by far the major importer of wheat, accounted for 34 percent of the increase in total world wheat imports, and at 21.3 million tons in 1980-84, accounted for a fifth of the world's total trade in wheat and wheat flour.

Major export gains in wheat and wheat flour over the past decade have been shared by the United States, Canada, Australia, and Argentina (Table 8). These countries have traditionally accounted for about 72 percent of world wheat exports. The relative shares of world trade, although fluctuating from one year to the next, have not changed significantly. In sharp contrast, the export market shares for the European Community have markedly increased from 8 percent to 19 percent between 1970-72 and 1980-84. The EC has shifted from a net importer to a net exporter over the past two decades, and to a position as the world's third largest wheat and wheat flour exporter. In 1970-72, the EC imported 11.8 million tons of wheat and flour while exporting only 5.0 million tons. By 1980-84, the EC's imports had declined to 10.5 million tons while their exports rose from 5.0 to 21.4 million tons – a four-fold increase. In contrast, the market share of wheat exports by the U.S.S.R. decreased from 11 percent in 1970-72 to only 2.0 percent in 1980-84 as the country shifted from being a net exporter to a net importer of wheat.

The U.S. share of the world wheat market was 38.7 percent during 1980-84, up from 32.8 percent in 1970-72 (Table 8) but down from its 1975 level of 48 percent. During the past decade, U.S. exports of wheat and wheat flour ranged from 20 million metric tons in 1970-72 to about 42 million tons in 1980-84. In 1985, the U.S. exported only 26 million tons. At this level, the U.S. share is estimated to have declined to about 30 percent – a level not reached since 1971.

World Trade in Feed Grains

One of the most striking features of global feed grain trade over the past 25 years has been its rapid growth. World trade in feed grains has nearly quadrupled over this period and has gone through three distinct stages of growth –

slow, rapid, and stagnant. During the 1960s, feed grain trade grew slowly but steadily. During the 1970s, world trade in feed grains grew very rapidly as livestock production and the demand for feed grains doubled. The 1980s have seen a stagnation in growth in world imports.

As with food grains, the most notable changes in the pattern of world trade in feed grains have been the decrease in importance of the developed countries as importers and the increase in importance of the less developed countries and centrally planned countries as importers. In 1970-72, the developed countries were 75 percent (Table 9) of the world market; in 1980-84 they were less than half the market (47.3 percent). Most of this decrease in market share (43 percent) by the developed countries was due to the decline in feed grain imports in the European Community. In 1970-72 the EC imported 23.1 million tons of feed grains – representing 43 percent of the world market (Table 9). In 1980-84, the EC imported only 18.4 million tons and represented only 17 percent of the world market in feed grains. Thus, a 20.2 percent decrease in the actual level of feed grain imports between 1970-72 and 1980-84, combined with a 135 percent increase in exports of feed grains by the EC, had moved the EC to a net export position during 1980-84 – a position they actually achieved in 1983. Japan, on the other hand, almost doubled its feed grain imports between 1970-72 and 1980-84 – increasing from 10.7 to 20.5 million tons. At this rate, the Japanese market grew from being less than half the size (46 percent) of the EC market to being a market 11 percent larger than the EC in 1980-84.

The decline in feed grain imports by the EC does not represent a decline in total demand for feed grains because total utilization continues to increase. Rather, it is due to increased domestic production on the one hand and to an increased level of imports of feed substitutes such as oilseed meal, which is substituted in part for feed grains in livestock feeds.

The major markets for feed grains have traditionally been in Western Europe and Japan. These markets are rapidly being replaced by markets in less developed and centrally-planned countries. Economic growth in the 1970s in many developing countries spurred the

TABLE 9

MAJOR MARKETS FOR FEED GRAINS IN 1970-72 AND 1980-84

MAJOR IMPORTERS	<u>IMPORTS</u>		<u>MARKET SHARE</u>	
	1970-72	1980-84	1970-72	1980-84
- MILLION METRIC TONS -				
<u>Developed Countries</u>	40.16	50.64	74.8	47.3
North America	.74	1.19	1.4	1.1
Western Europe	28.51	28.30	53.1	26.4
EC-10	23.11	18.43	43.0	17.2
Others	5.40	9.87	10.1	9.2
Japan	10.68	20.48	19.9	19.2
Oceana, South Africa	0.24	.67	0.4	0.6
 Centrally <u>Planned Countries</u>	 8.06	 28.10	 15.0	 26.3
Eastern Europe	3.74	6.76	7.0	6.3
U.S.S.R.	2.85	16.13	5.3	15.1
China, et. al.	1.44	5.21	2.7	4.9
 <u>Less Developed Countries</u>	 5.45	 28.28	 10.2	 26.4
Latin America	1.69	10.51	3.2	9.8
Africa	0.79	3.17	1.5	3.0
Near East	0.6	8.65	1.1	8.1
Asia	2.37	5.95	4.4	5.5
 World	53.76	107.02	100.0	100.0

Source: FAO Trade Yearbook, 1975 and 1984.

TABLE 10

MAJOR EXPORTERS OF GRAINS IN 1970-72 AND 1980-84

MAJOR EXPORTERS	EXPORTS		MARKET SHARES	
	1970-72	1980-84	1970-72	1980-84
- MILLION METRIC TONS -				
<u>Developed Countries</u>	40.47	89.97	75.6	83.5
North America	25.80	67.43	48.2	62.5
United States	21.47	61.44	40.1	56.9
Canada	4.33	5.99	8.1	5.6
Western Europe	10.37	16.47	19.4	15.3
EC-10	6.75	15.30	12.6	14.2
Others	3.62	1.17	6.7	1.1
Oceana	2.13	3.09	4.0	2.9
Japan, South Africa	2.17	2.98	4.0	2.8
 <u>Centrally Planned Countries</u>				
Eastern Europe	2.05	1.94	3.8	1.80
U.S.S.R.	1.10	1.49	2.1	1.4
China	0.90	.19	1.7	.02
China	0.05	.26	0	0.2
 <u>Less Developed Countries</u>				
Latin America	11.04	16.00	20.6	14.7
Africa	8.16	10.96	15.2	10.1
Near East	0.58	0.39	1.1	0.4
Asia	0.18	0.83	0.3	0.8
Asia	2.13	3.82	4.0	3.5
 World	53.56	107.91	100.0	100.0

Source: FAO Trade Yearbook 1975 and 1984.

development of livestock production in such countries as Brazil, Taiwan, South Korea, and Mexico and greatly increased their demand for feed grains, transforming these countries into growth markets. The less developed countries increased their share of world feed grains imports from 10 percent in 1970-72 to 26 percent in 1980-84 (Table 9).

The tremendous growth of world trade in feed grains was also influenced by the decision of the U.S.S.R. to increase its livestock production in the 1970s despite chronic domestic crop shortfalls. Previously, it had absorbed these frequent crop shortfalls by reducing consumption of grain and slaughtering the livestock. This new policy necessitated the imports of large quantities of feed grains. U.S.S.R. feed grain imports were less than three million tons in 1970-72. By 1980-84 they had increased their purchases to 16 million tons – a fivefold increase. This rapid growth increased their market share of world feed grain trade from 5 to 15 percent.

Seven major exporters – the United States, Canada, Australia, the EC, Argentina, South Africa, and Thailand – account for over 90 percent of total feed grain exports. The United States exported 40 percent of the world's traded feed grains in 1970-72 and 57 percent in 1980-84. During this period, the volume of U.S. exports increased three times while world imports doubled. Increases in world exports and market shares were registered only by the U.S. and the European Community, which increased exports of feed grains from 6.75 million tons in 1970-72 to 15.3 million tons in 1980-84. At this level, the EC exports represented 17 percent of the world market (Table 10).

The United States has traditionally been the world's largest exporter of feed grains. Its share of the world feed grain trade has fluctuated between 40 and 72 percent since 1960. Corn is by far the largest U.S. feed grain export. In 1984 the U.S. exported 4.9 million metric tons, which represented 72 percent of world corn exports and 50 percent of world feed grain exports.

Canada has been the world's largest barley exporter with 40 percent of the market share. Barley is also the dominant feed grain export of the EC and has grown from 25 percent of the world's barley trade in 1981-82 to 40 percent in 1984-85.

World Trade in Soybeans and Products

World demand and trade in oilseeds and products has grown rapidly during the 1970s but has stagnated during the 1980s. The volume of world trade in soybeans and products – the dominant oilseed – has more than doubled since 1970-72, increasing from 20 to 51 million metric tons. Soybeans have dominated world trade in oilseeds and protein meals, accounting for 87 percent of world trade in oilseeds and 71 percent of world trade in protein meals. Soybean oil is the second leading vegetable oil traded (palm oil is first), accounting for 25 percent of world trade in 1984-1985.

The two most important markets for soybeans and products during the past two decades have been Western Europe and Japan. Together, these markets accounted for 67 percent of world imports in 1970-72, and 55.5 percent in 1980-84 (Table 11). These developed-country markets have grown more slowly than those in the less developed countries of Latin America and Asia in recent years and have, therefore, lost some of their market shares to the more rapidly growing markets in the newly industrializing nations such as Taiwan, Korea, Mexico, and U.S.S.R. All of these countries have a demand base for both oils and protein meals, enabling them to support a crushing industry based upon imported oilseeds. These rapidly growing markets have increased from a combined level of about 1 million metric tons of imports in 1970-72, to almost 9 million metric tons in 1980-84. Because of their more rapid growth, the combined market share of world trade in soybeans and products for these regions increased from 4.8 percent in 1970-72 to 17.5 percent in 1980-84 (Table 11).

The major markets for protein meals are the countries of Western and Eastern Europe. These countries generally have high levels of livestock product consumption and developed animal feed industries. The demand for protein feeds for their industries requires them to import protein meals in excess of production from domestic and imported oilseed.

The major markets for vegetable oils are generally in the less developed countries. Oil imports are widely dispersed among a number of countries – much more than with soybeans and

TABLE 11

MAJOR MARKETS FOR SOYBEANS AND PRODUCTS
IN 1970-72 AND 1980-84

MAJOR IMPORTERS	<u>IMPORTS</u>		<u>MARKET SHARES</u>	
	1970-72	1980-84	1970-72	1980-84
- MILLION METRIC TONS -				
<u>Developed Countries</u>	16.97	34.25	83.0	67.5
North America	0.63	0.83	3.1	1.6
Western Europe	12.60	28.11	61.6	55.4
EC-10	10.37	22.46	50.7	44.3
Other W.E.	2.23	5.65	10.9	11.1
Other Developed	3.74	5.31	18.3	10.5
Japan	3.34	4.69	16.3	9.2
 Centrally <u>Planned Countries</u>	 2.29	 8.17	 11.2	 16.1
Eastern Europe	1.56	4.18	7.6	8.2
U.S.S.R.	0.10	2.41	0.5	4.8
China	0.63	1.58	3.1	3.1
 <u>Less Developed Countries</u>	 1.18	 8.29	 5.8	 16.4
Latin America	0.38	3.27	1.9	6.4
Africa	0.12	0.59	0.6	1.2
Near East	0.18	1.25	0.9	2.5
Asia	0.50	3.18	2.4	6.3
 World Imports	20.44	50.71	100.0	100.0

Source: FAO Trade Yearbook, 1975 and 1984.

TABLE 12
MAJOR EXPORTERS OF SOYBEANS AND PRODUCTS
1970-72 AND 1980-84

MAJOR EXPORTERS	<u>EXPORTS</u>		<u>MARKET SHARES</u>	
	- MILLION METRIC TONS -		- PERCENT -	
<u>Developed Countries</u>	18.10	35.35	89.9	69.6
North America	16.44	29.47	81.7	58.0
United States	16.26	29.31	80.8	57.7
Western Europe	1.63	5.87	8.1	11.6
EC-10	1.46	4.82	7.3	9.5
Other W.E	0.17	1.05	0.8	2.1
Other Developed	0.03	.01	0.1	0
 Centrally <u>Planned Countries</u>	 0.47	 0.71	 2.4	 1.4
Eastern Europe	0.01	0.07	0.1	0
U.S.S.R.	0	0	0	0
China	0.46	0.69	2.3	1.4
 <u>Less Developed Countries</u>	 1.56	 14.74	 7.7	 29.0
Latin America	1.53	14.35	7.6	28.2
Argentina	0	3.61	0	7.1
Brazil	1.46	10.11	7.3	19.9
Africa	0	0	0	0
Near East	0	0.04	0	0.1
Asia	0.03	0.35	0.1	0.7
 World Exports	20.13	50.80	100.0	100.0

Source: FAO Trade Yearbook, 1975 and 1984.

protein meals. Ten major importing countries – India, Pakistan, Egypt, Iran, Algeria, Turkey, Venezuela, Nigeria, Morocco, and Iraq – account for almost a third of world oil imports.

The major producers and exporters of soybeans and products are the United States, Argentina, Brazil, and China. The United States is the world's leading producer of soybeans (about 56 percent in 1984), as well as the largest exporter of soybeans, shipping 70 percent in 1984. The United States is also the leading producer of soybean meal, but Brazil and Argentina exported almost two times more than the U.S. did in 1983-1984. Brazil is the leading exporter of soybean meal and oil followed by the United States and Argentina. Argentina is the third largest exporter of soybean meal and has been the most rapidly increasing producer and exporter of soybeans and products during the 1980s. Since the mid-1970s, Argentina has increased its exports of soybeans and products from about one thousand tons to 3.6 million tons in 1980-84 (Table 12), and increased its market share from less than 1 percent to more than 7 percent. Brazil increased its market share of world exports of soybeans and products from 7.3 percent in 1970-72 to 19.9 percent in 1980-84. Together, Argentina and Brazil increased their market share of world trade 20 percent, while the U.S. share declined 23 percent.

While the United States exports primarily soybeans, Brazil and Argentina export primarily meal and oil. The governments of Brazil and Argentina have provided large subsidies for processing oilseed into products for exports, primarily through differential tax rates on meal and oil rather than on beans. The lower tax rate on soybean products provides a powerful incentive for developing the domestic oil seed processing industry and exporting the product rather than soybeans.

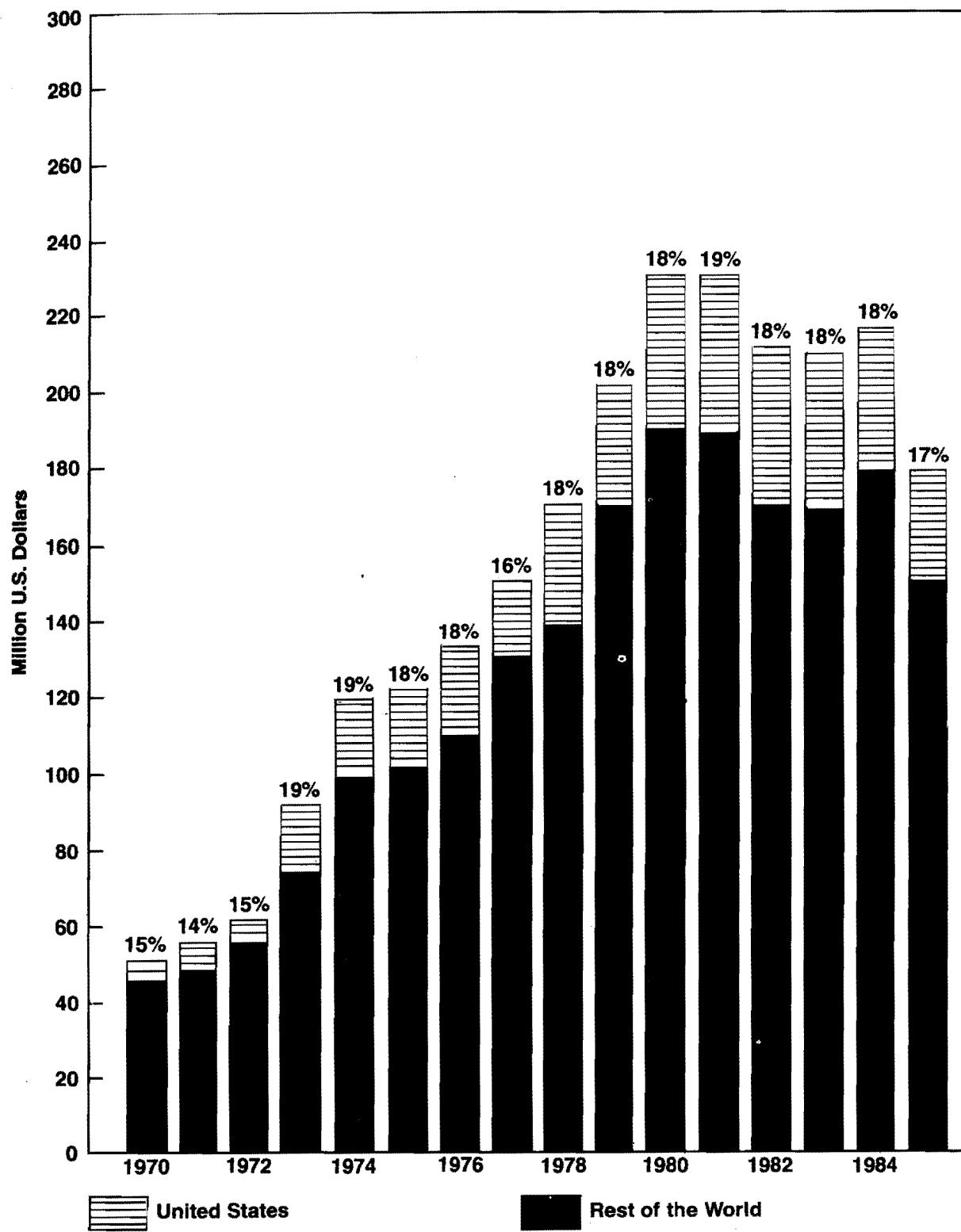
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World Agriculture And Trade In A Global Economy

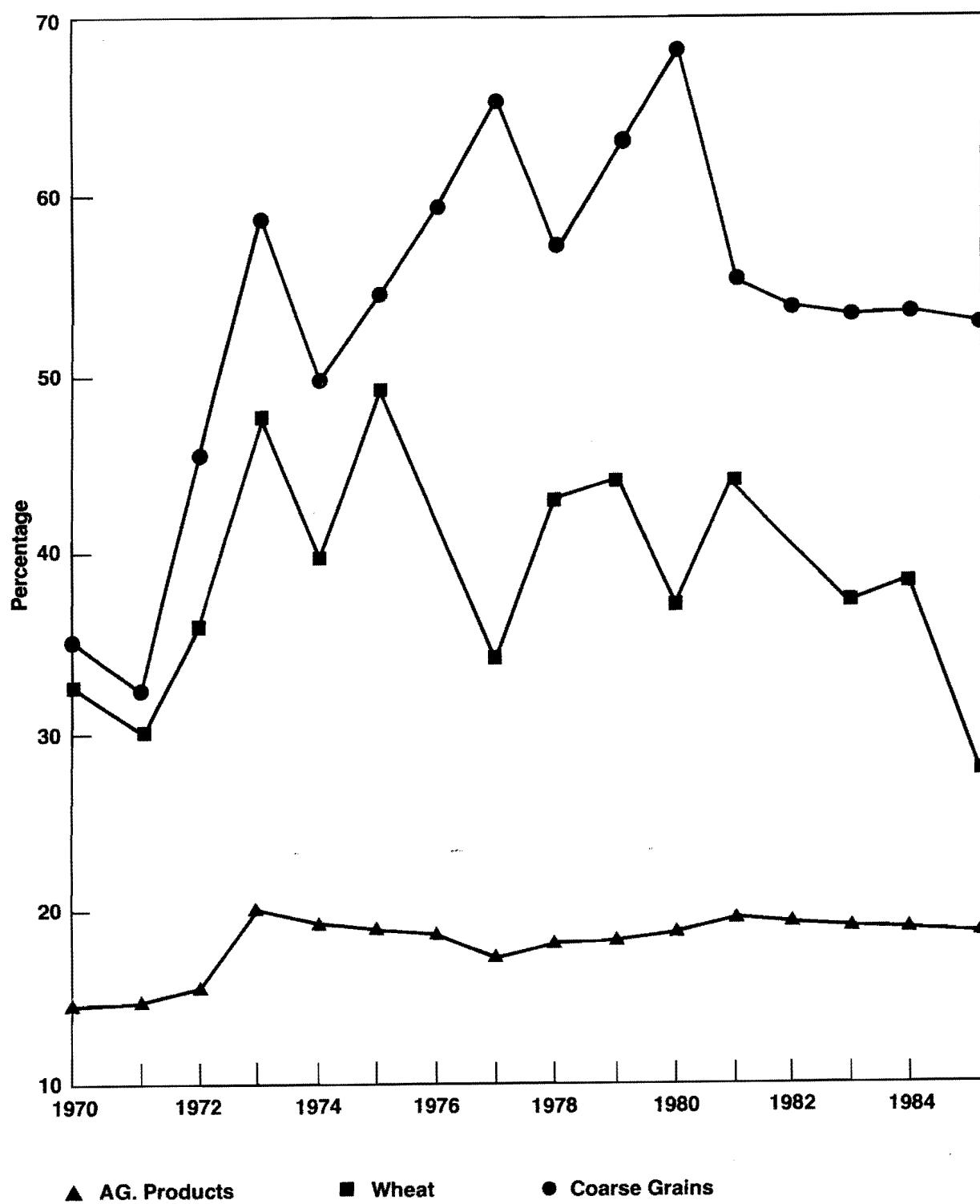
**Accompanying
Figures**

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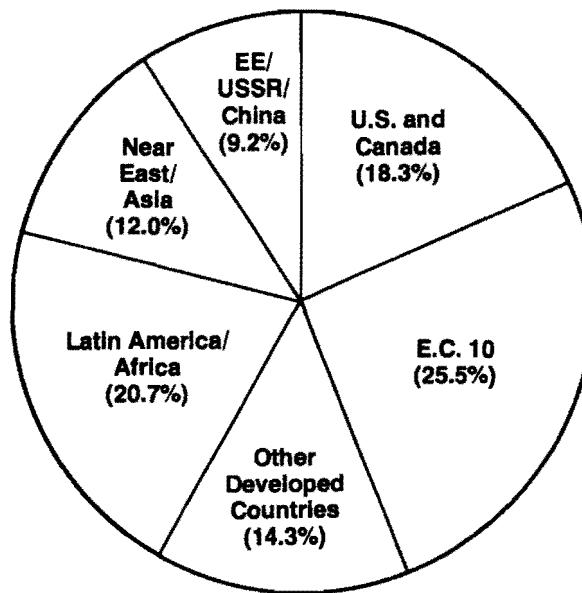
World Agricultural Trade U.S. Share



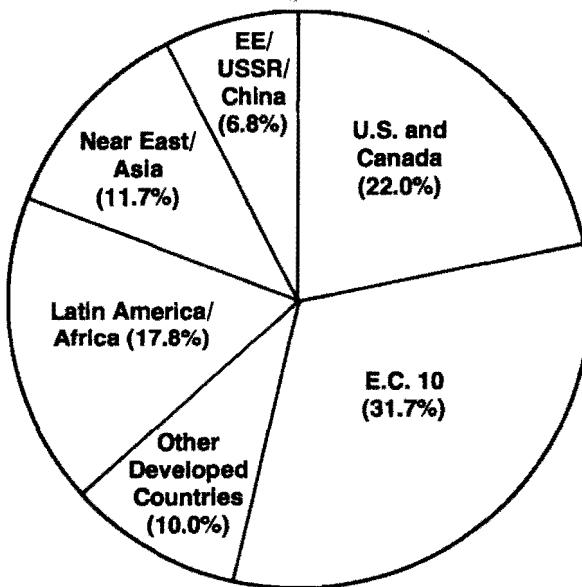
U.S. Market Share



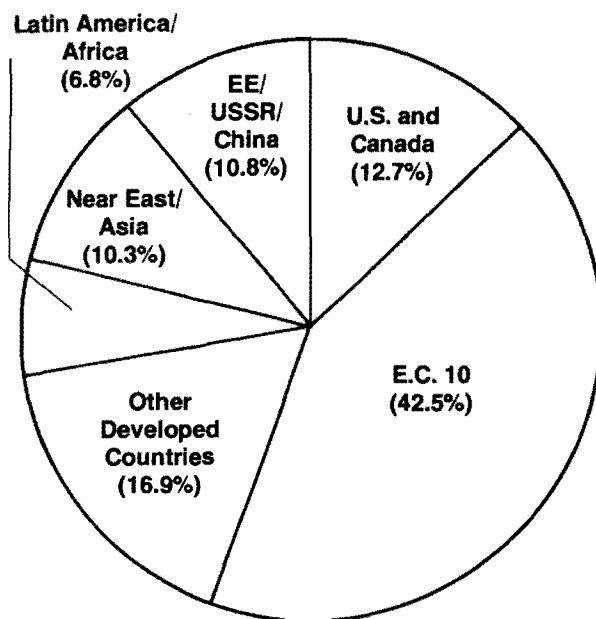
Major Exporters 1970-1972



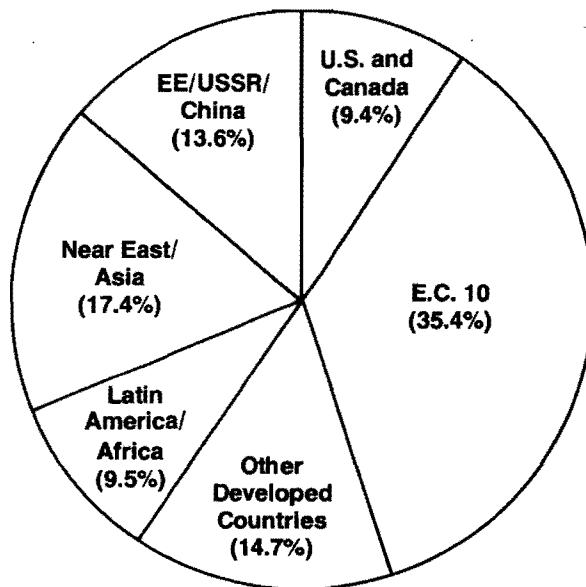
Major Exporters 1980-1984



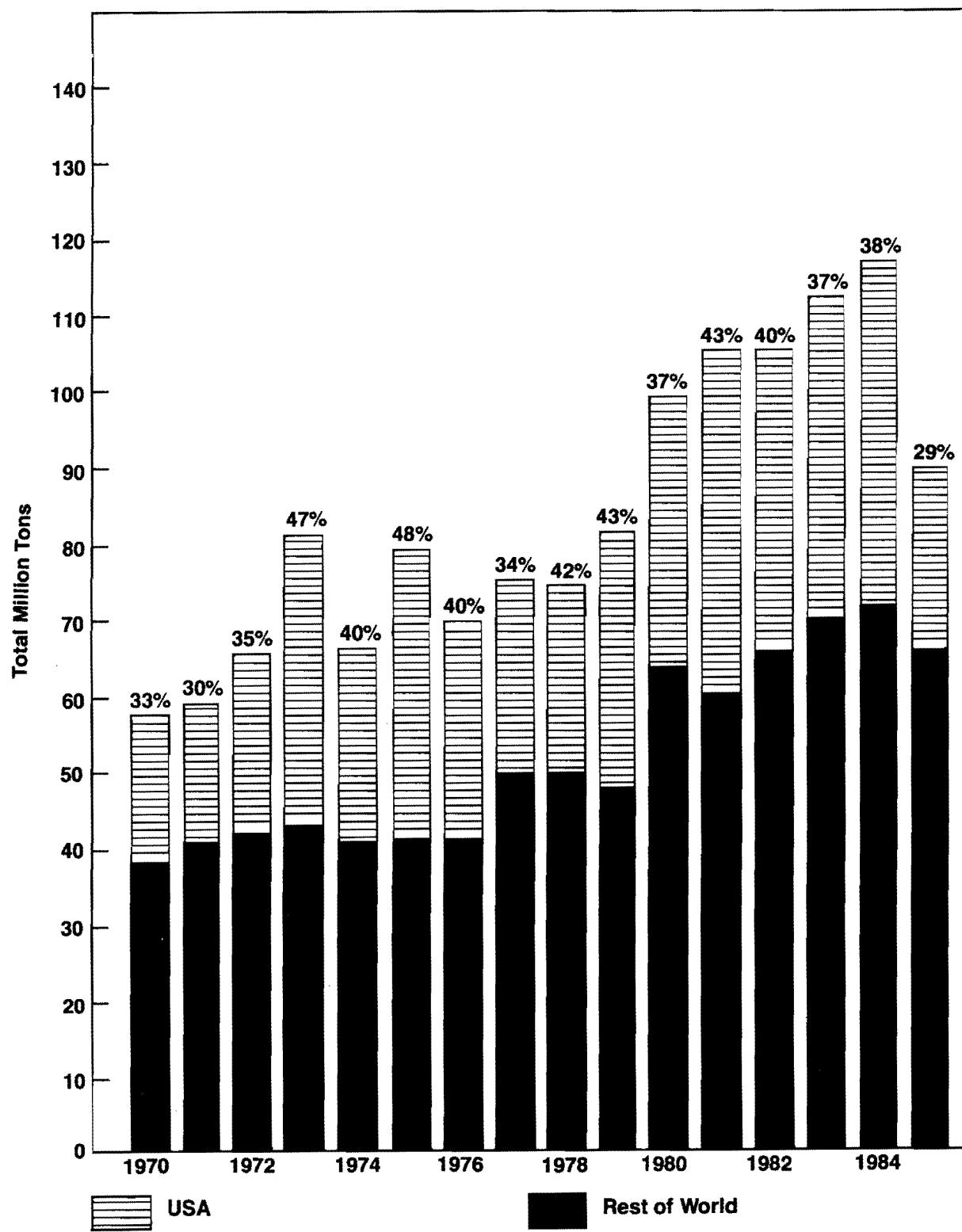
Major Markets 1970-1972



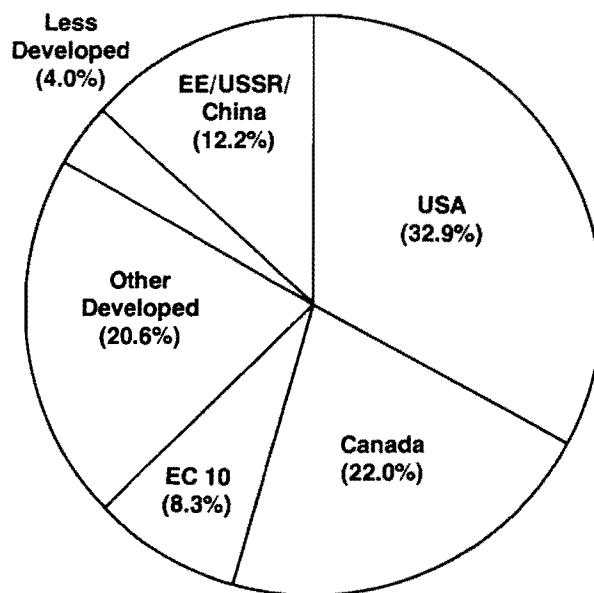
Major Markets 1980-1984



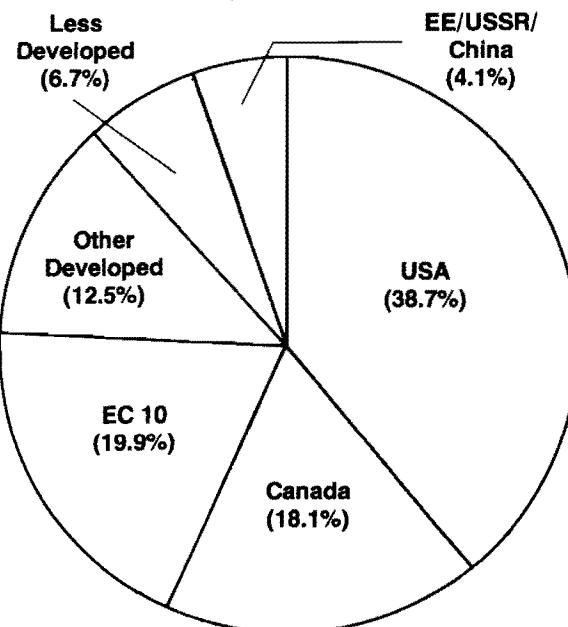
Total World Trade Wheat and Wheat Flour



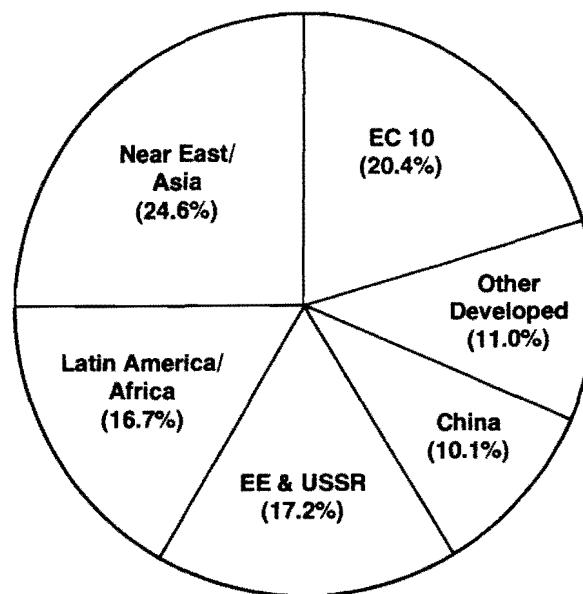
Major Exporters/Wheat 1970-1972



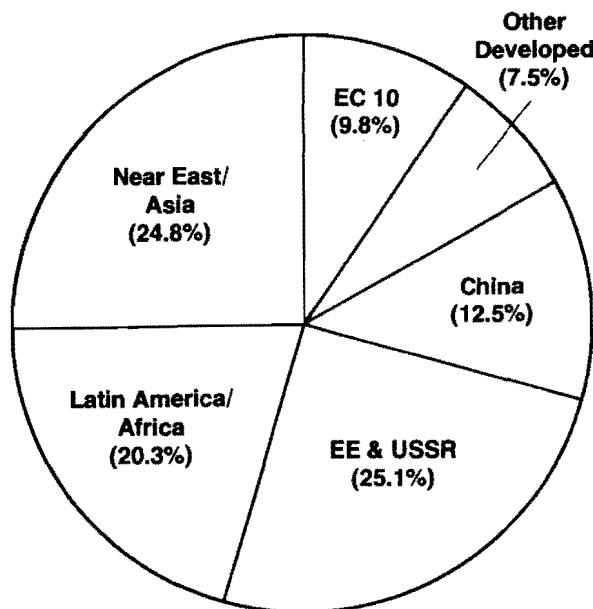
Major Exporters/Wheat 1980-1984



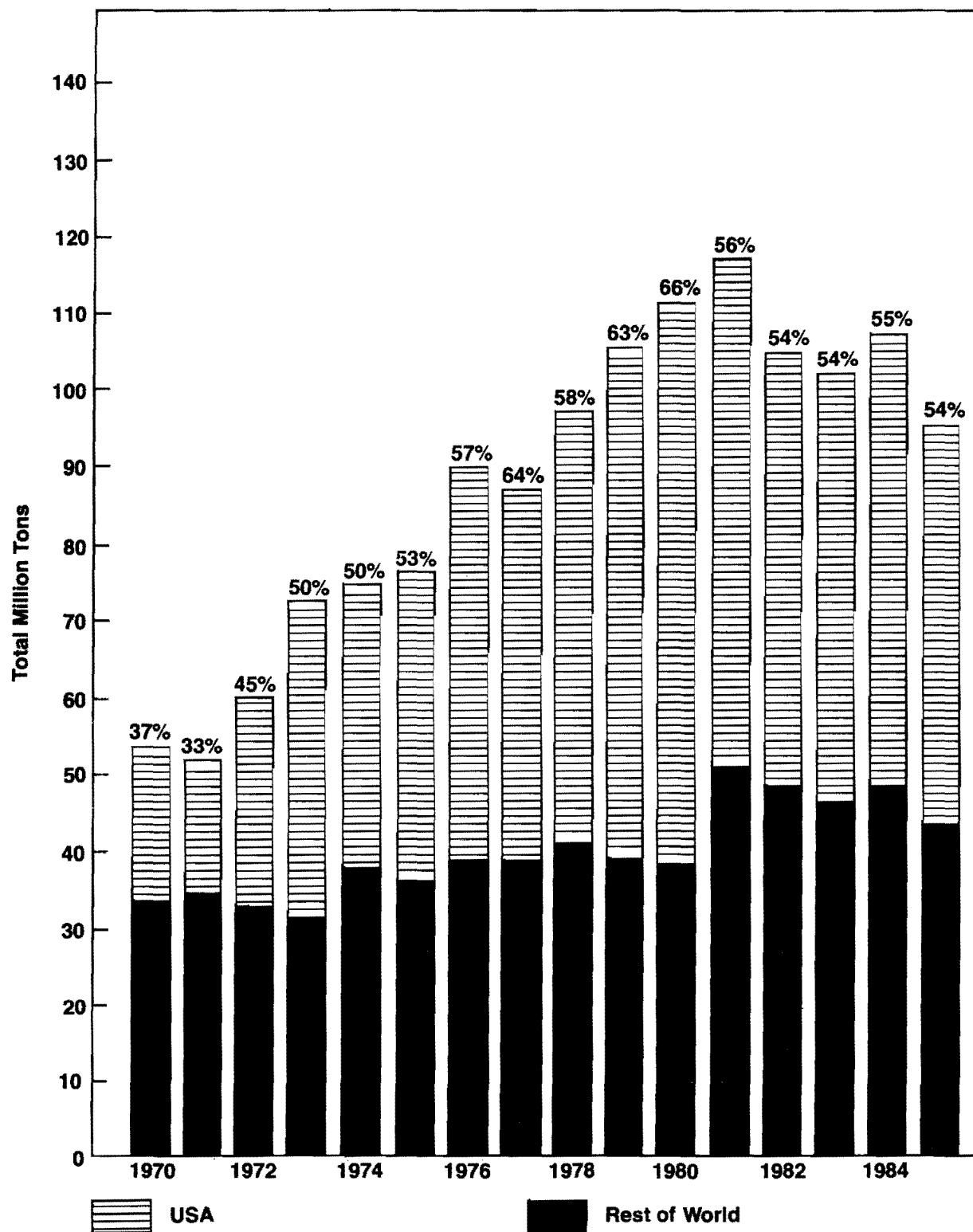
Major Markets/Wheat 1970-1972



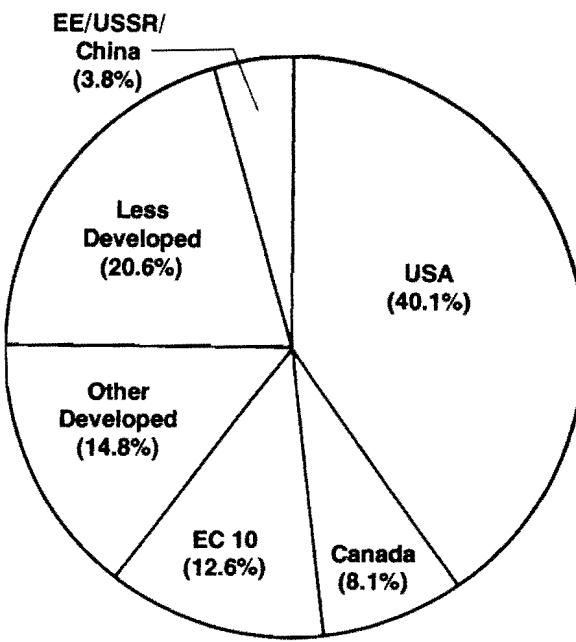
Major Markets/Wheat 1980-1984



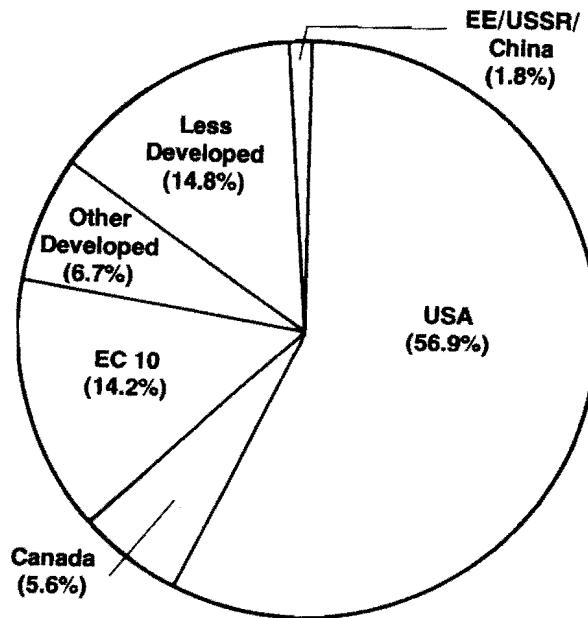
Total World Trade Feed Grains



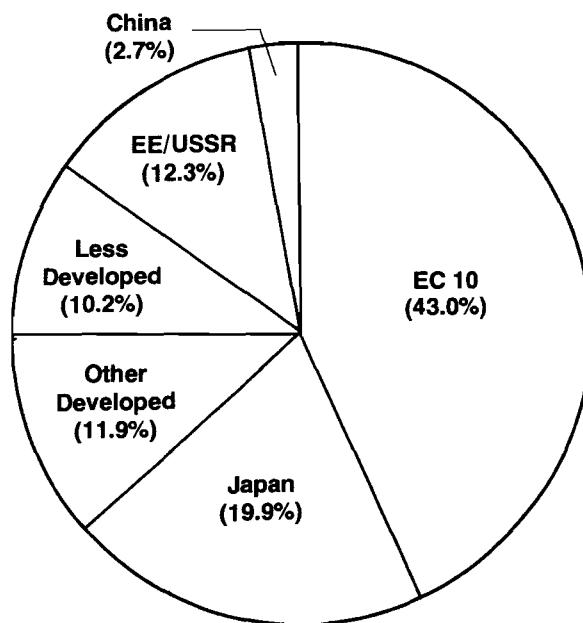
Major Exporters/Feed Grains 1970-1972



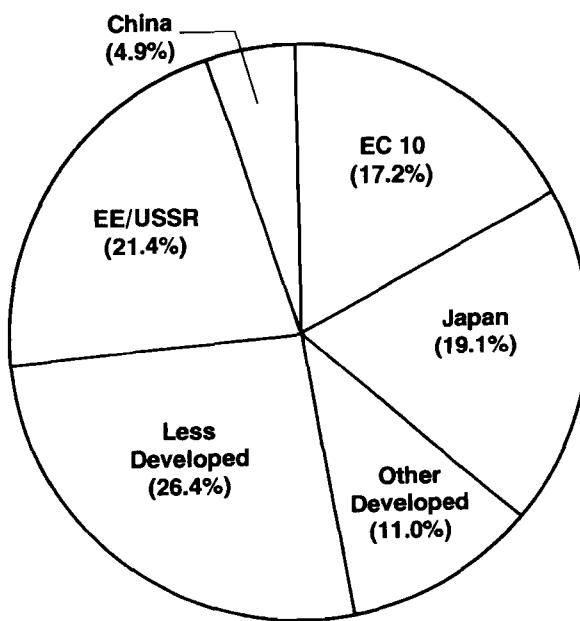
Major Exporters/Feed Grains (1980-1984)



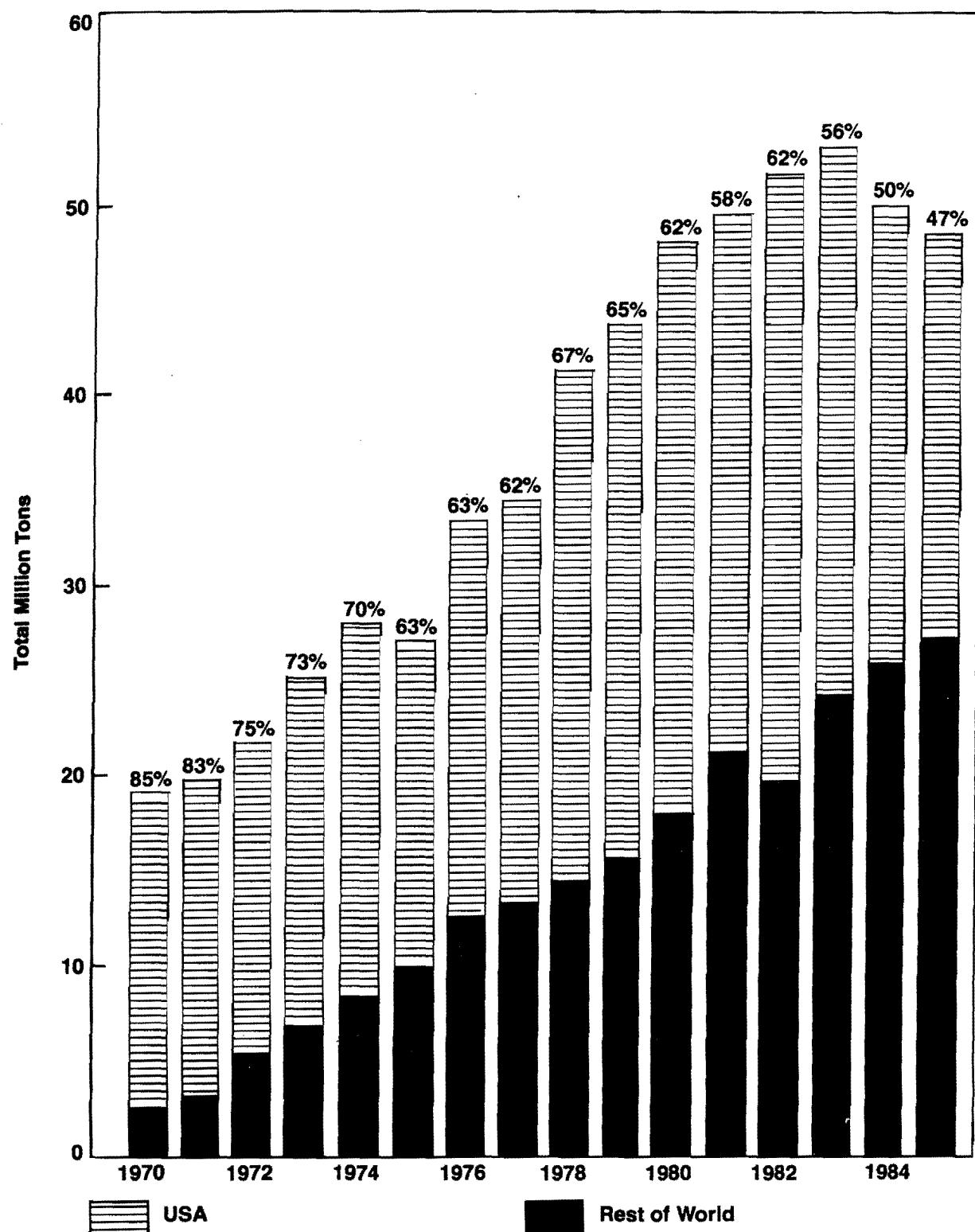
Major Markets/Feed Grains 1970-1972



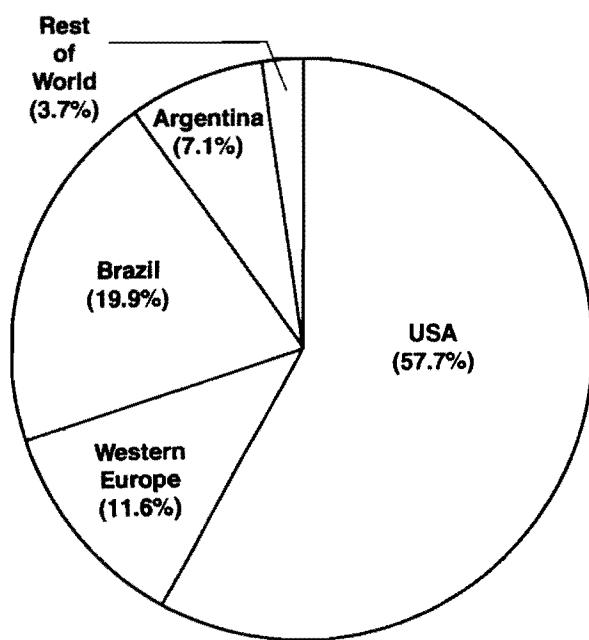
Major Markets/Feed Grains 1980-1984



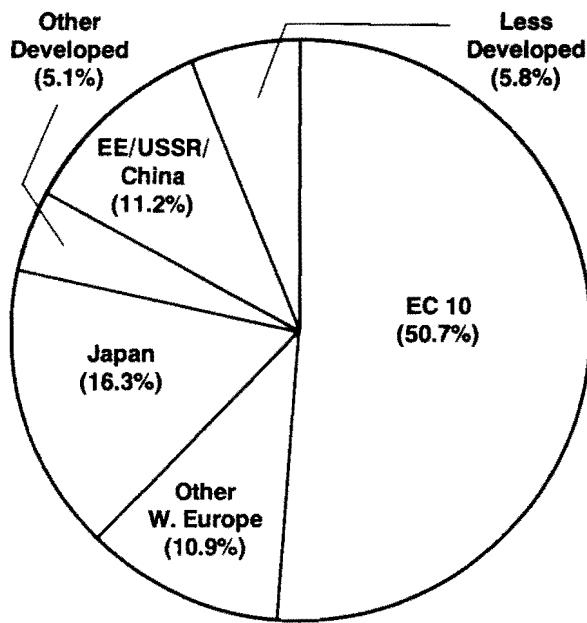
Total World Trade Soybeans and Soy Products



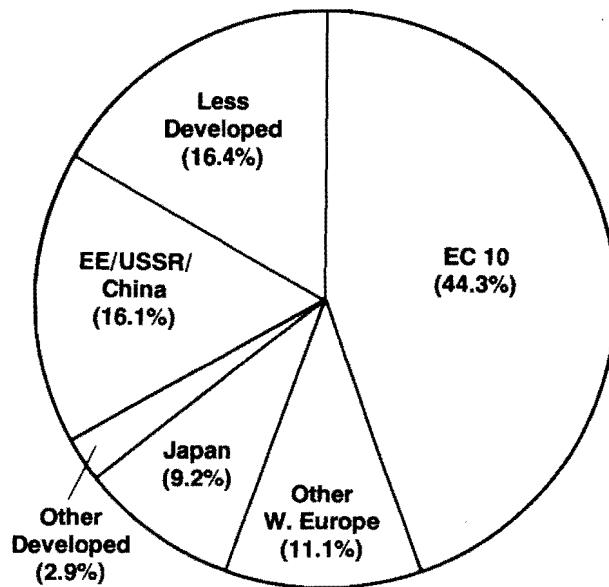
**Major Exporters—
Soybeans & Products
1980-1984**



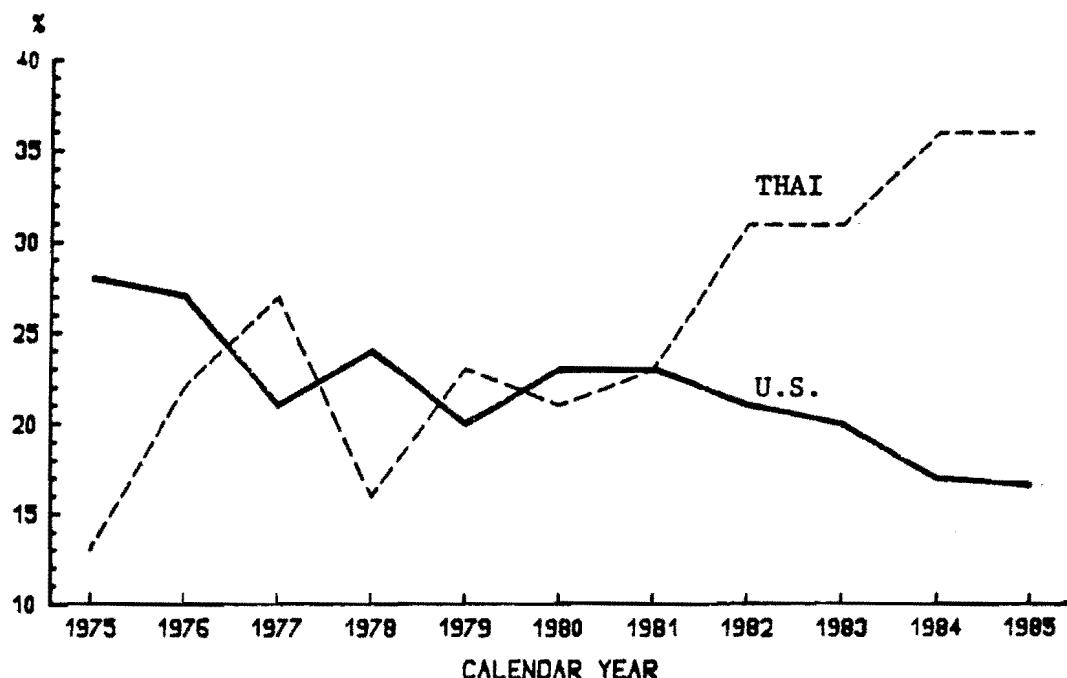
**Major Markets/
Soybeans and Products
1970-1972**



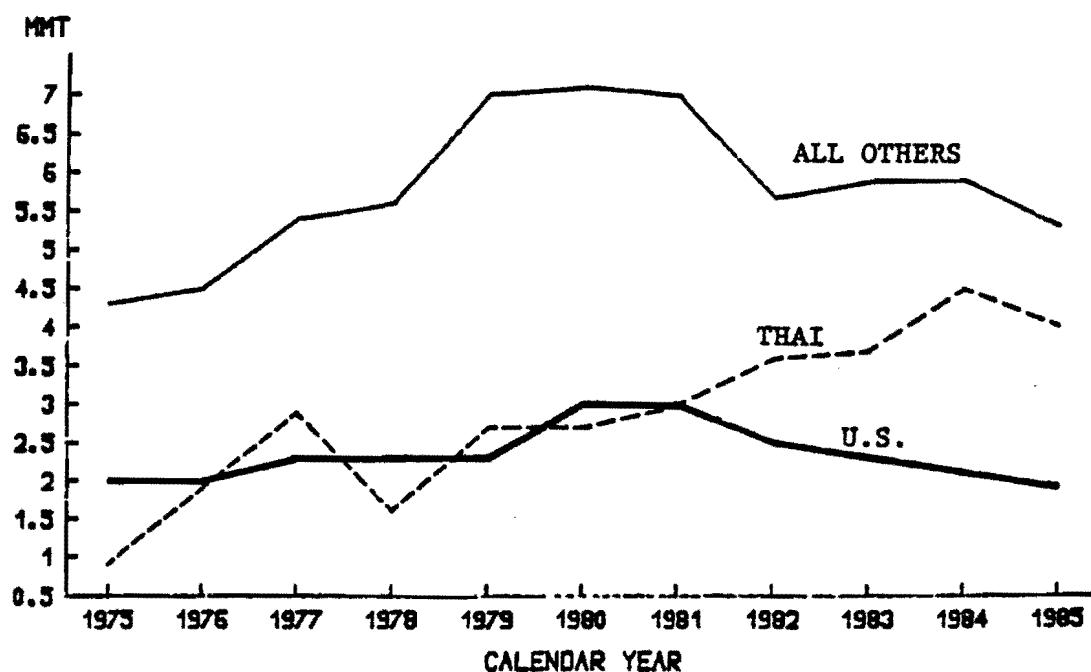
**Major Markets/
Soybeans and Products
1980-1984**



U.S. AND THAI MARKET SHARE OF WORLD RICE TRADE



U.S., THAI, AND ALL OTHER RICE EXPORTS

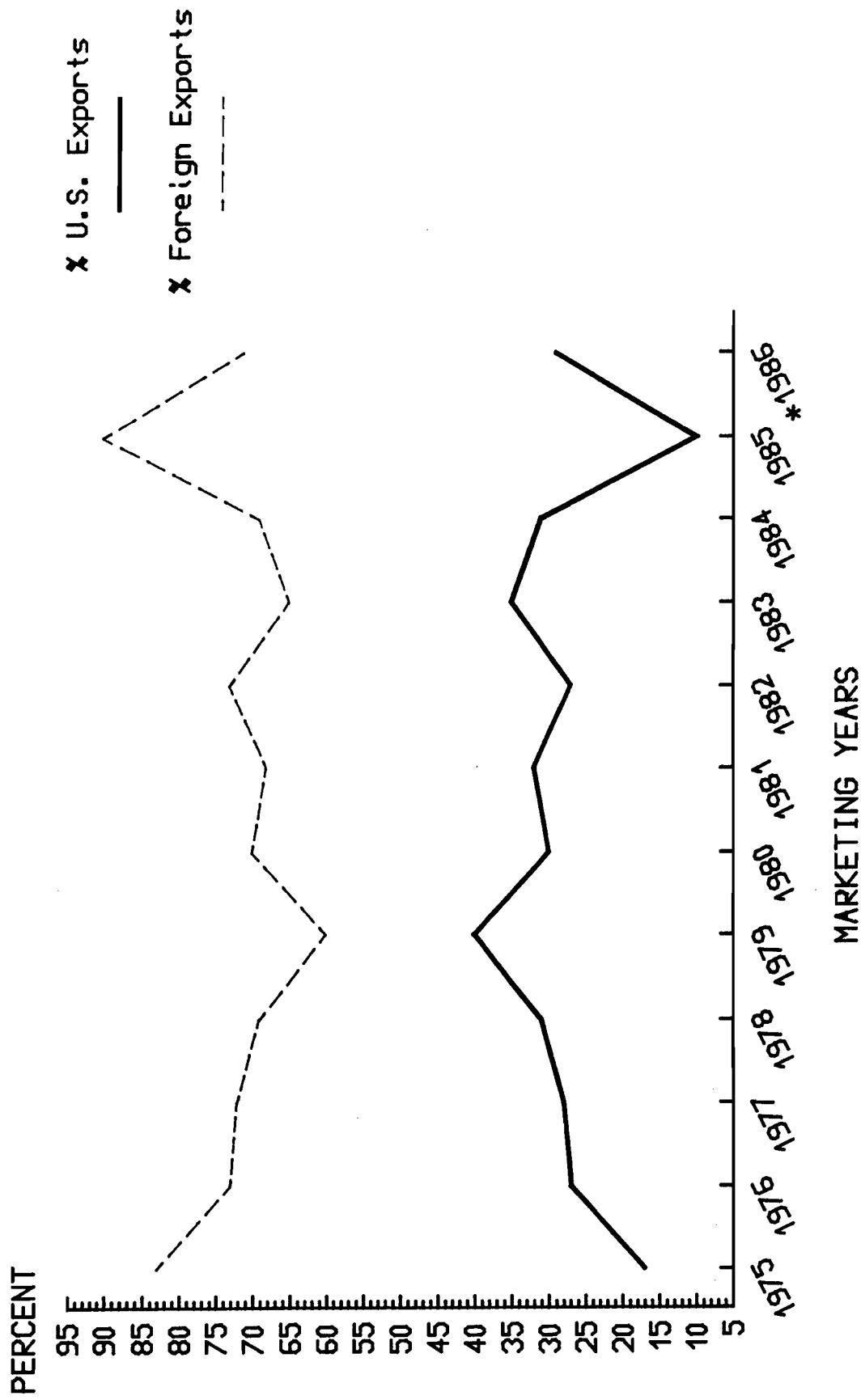


WORLD RICE TRADE

	Cal Yr. 1980	Cal Yr. 1981	Cal Yr. 1982	Cal Yr. 1983	Cal Yr. 1984	Cal Yr. 1985	Cal Yr. 1986 1/
Exports							
United States	2,977	3,008	2,487	2,330	2,129	1,905	1,800
Australia	321	335	530	281	370	400	500
Burma	675	674	701	750	727	450	500
China	1,116	590	470	580	1,168	1,000	900
EC	804	812	826	807	742	745	745
Pakistan	971	1,127	794	1,299	1,050	961	900
Thailand	2,700	3,049	3,620	3,700	4,528	4,005	4,300
Uruguay	165	215	227	189	155	240	260
Others	3,014	3,278	2,168	1,988	1,698	1,454	1,480
Total	12,743	13,088	11,823	11,924	12,567	11,160	11,385
Imports							
Indonesia	2,040	543	328	1,175	387	40	40
Korea	822	2,292	228	216	7	-	-
Malaysia	167	317	403	357	437	450	500
Others	9,714	9,936	10,864	10,176	11,736	10,670	10,845
Total	12,743	13,088	11,823	11,924	12,567	11,160	11,385

1/ FAS Estimate as of January 13, 1986 (Does not include impact of 1986 U.S. Farm Program)

U.S. AND FOREIGN MARKET SHARE OF WORLD COTTON
TRADE

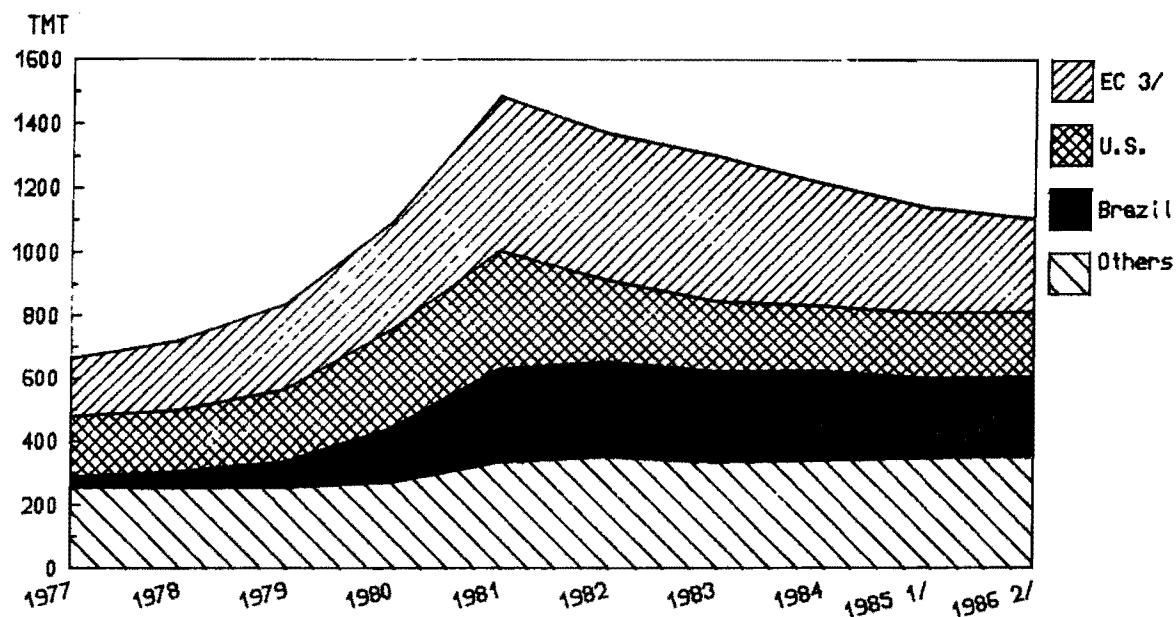


COTTON EXPORTS
THOUSAND 480 LB. BALES

Foreign Exports	U.S. Exports	World Cotton Exports	% Foreign Exports	% U.S. Exports
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1975	15782	3311	19093	83	17
1976	12786	4784	17570	73	27
1977	13665	5484	19149	72	28
1978	13610	6180	19790	69	31
1979	14015	9229	23244	60	40
1980	13785	5926	19711	70	30
1981	13641	6567	20208	68	32
1982	14234	5207	19441	73	27
1983	12449	6786	19235	65	35
1984	14026	6215	20241	69	31
1985	18007	1965	19972	90	10
1986	15783	6310	22093	71	29

WORLD POULTRY TRADE
Total Poultry Meat

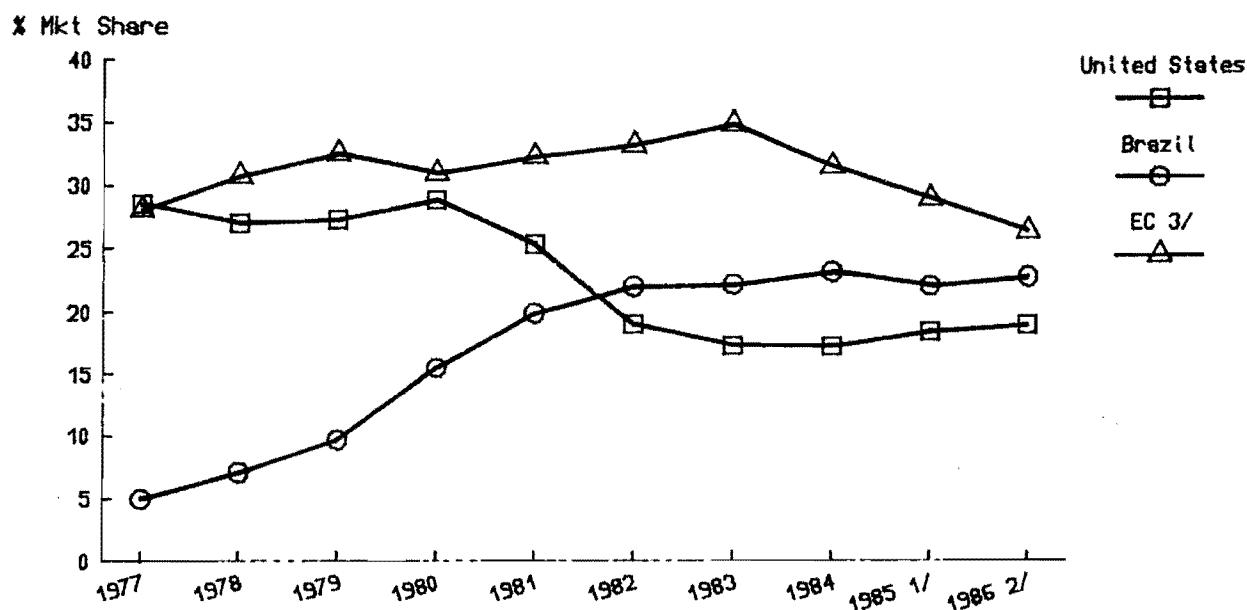


1/ Preliminary

2/ Forecast

3/ Excludes EC intratrade.

WORLD POULTRY TRADE
Total Poultry Meat
Market Share



1/ Preliminary

2/ Forecast

3/ Excludes EC Intratrade.

WORLD POULTRY TRADE
Total Poultry Meat
(1000 MT)

	Cal. Yr. 1980	Cal. Yr. 1981	Cal. Yr. 1982	Cal. Yr. 1983	Cal. Yr. 1984	Cal. Yr. 1985 1/	Cal. Yr. 1986 2/
Exports							
United States	316	375	261	225	209	210	209
Brazil	170	295	302	289	281	251	251
EC 10 3/	339	479	455	454	382	329	290
Hungary	135	157	179	186	162	160	158
Others	136	178	173	148	179	188	195
Total 3/	1096	1484	1370	1302	1213	1138	1103
Imports							
Saudi Arabia	194	182	209	227	156	130	75
Egypt	65	115	40	130	115	130	135
Iraq	60	138	121	66	70	50	30
USSR	159	253	260	206	114	90	75
Hong Kong	86	88	92	88	94	118	127
Japan	72	98	106	105	107	104	124
Others	312	307	318	292	305	302	242
Total 3/	948	1181	1146	1114	961	924	808

1/ Preliminary.

2/ Forecast.

3/ Excludes EC intratrade. In 1986, after the accession of Spain and Portugal to the European Community, Spain imported 9,000 MT from the EC, out of a total 21,000 MT of poultry meat. Spain did not export poultry meat to the EC, but did export 3,000 MT to 3rd countries. Portugal did not import or export poultry meat in 1986.

U.S. AGRICULTURAL COMPETITIVENESS

U.S. AGRICULTURAL COMPETITIVENESS

INTRODUCTION

American farmers and agribusinessmen have long prided themselves on our nation's reputation as a low-cost producer of agricultural commodities and products. Indeed, the basic factors of agricultural production in the United States have much to commend them. Land is plentiful and productive, weather generally cooperative, technology advanced, and labor and capital efficient.

Considerations such as these, together with a surging world demand for farm products beginning in the 1960s had much to do with the gradual evolution of U.S. agricultural policy toward greater market orientation. U.S. agriculture became competitive. Consequently, returns to production could be achieved in the marketplace, with less reliance on government supports and price protections.

Such policies generally served American agriculture well during the growth period of the 1970s. However, beginning in the 1980s, the competitive position of United States agriculture has been in decline.

The value of United States agricultural exports has fallen precipitously since 1981. The export decline has prompted some commentators to speculate on the appropriateness of maintaining an export-oriented American agriculture. How, it is asked, can American farmers and agribusinessmen hope to compete effectively against low-cost producers in developing countries such as Brazil, Argentina, or Thailand? What long-term impact will technology have in increasing production in these competitor nations and others, such as European Community countries, which are among the world's newly emergent agricultural exporting nations? Is there hope for maintaining U.S. agricultural competitiveness in world markets, or will agriculture go the route travelled by so many of our other basic industries, into a cycle of high cost, and a retreat removed from the markets of the world?

Concern with the issue of competitiveness has been at the heart of the deliberations of the National Commission on Agricul-

tural Trade and Export Policy. As an initial concern, the Commission had to determine whether or not the fundamentals of production in the United States were consistent with a competitive world market position, holding aside, momentarily, macroeconomic and other exogenous factors such as domestic policy, exchange rates, and unfair foreign trade practices which clearly influence the ultimate performance of U.S. agriculture in world markets.

While data relating to fundamentals of production such as variable costs and productivity are currently little refined on a worldwide basis, the Commission is satisfied that there is strong evidence to suggest that American agriculture is basically competitive with other exporting countries as the term is most often used. That evidence is presented in this report. It leads the Commission to conclude that our recent decline in competitiveness is the result of a series of macroeconomic factors and government interventions that occur beyond the farm gate. They do not lie with U.S. agricultural industry itself. Corrections of such phenomena, and improved government policy can redress the imbalance of U.S. competitiveness, and unleash the productive capacity of our farmers and agribusiness industries. While the impact of such corrections will not be felt equally among all sectors of the agricultural economy, and while the outlook in world markets does not promise overnight success, the long-term competitive promise of American agriculture is good. The key to such promise is closer attention to policies and practices that neutralize currently felt macroeconomic and government influences which have little to do with the factors of production on the farm itself.

What is Competition?

The word "competition" has had a lot of use in agricultural circles in recent years. In seeking to explain the disastrous slide in agricultural exports since 1981, many contend that the United States has not been competitive enough. But just what is meant by the word "competitive"?

Competition can have different mean-

ings depending upon who is using the term. Most of the time, people have in mind the dictionary definition. According to Webster's, competition may be defined as "the effort of two or more parties acting independently to secure the business of a third party by offering the most favorable terms."

Economists, however, generally mean something much more specific when they use the word. For example, the concept of "perfect competition," as the name suggests, denotes an ideal state for a national economy in which the following conditions would apply: 1) the number of producers is sufficient that no one firm by itself may influence price; 2) market participants have perfect knowledge of all factors affecting the market; 3) there is no collusion among buyers or sellers to fix prices; 4) there is no difference among products; and 5) factors and firms are free to enter and exit the industry.

On the level of individual firms, competitiveness is assessed by measuring which producer is the most efficient; that is, which one has the lowest cost of production. That firm, in theory at least, should be able to sell its goods at a lower price than other firms.

The idea of competition becomes somewhat more unwieldy when it is applied to international trade. On the simplest level, one could rate competitiveness by looking at which one of two countries could produce the same good more cheaply. The country which can do so is said to have absolute advantage in producing that good. Such a comparison, however, would fail to show the undeniable value of an international trading system, under which each country concentrates on producing the goods and services for which it is best suited relative to other countries.

Nearly two centuries ago, the British economist David Ricardo sought to account for this phenomenon when he developed the theory of comparative advantage, which more accurately accounts for the gains derived from trade. Ricardo's theory is still deemed valid today.

In testimony before a House Agriculture Subcommittee, Dr. John Lee, Administrator of the USDA Economic Research Service (ERS), distinguished absolute from comparative ad-

vantage. The former Lee stated, asked who can produce the most with the fewest resources. Comparative advantage, on the other hand, weighs the alternative uses of resources, be they natural, financial, or human. Using a two-country, two-commodity model, Lee showed that if trade is conducted according to comparative advantage, "consumers in both countries will be better off because resources are used efficiently and the two countries can produce more in total than if each attempted to be self-sufficient in both goods."

Unfortunately, comparative advantage can only be assessed after the fact. Each individual economic resource can be used in a multitude of ways. It would be virtually impossible to predict with certainty how a nation's resources should best be allocated. Only the international market can determine whether a resource of a particular nation — its labor, for example — would be more efficiently concentrated in manufacturing, agriculture, or the service sector.

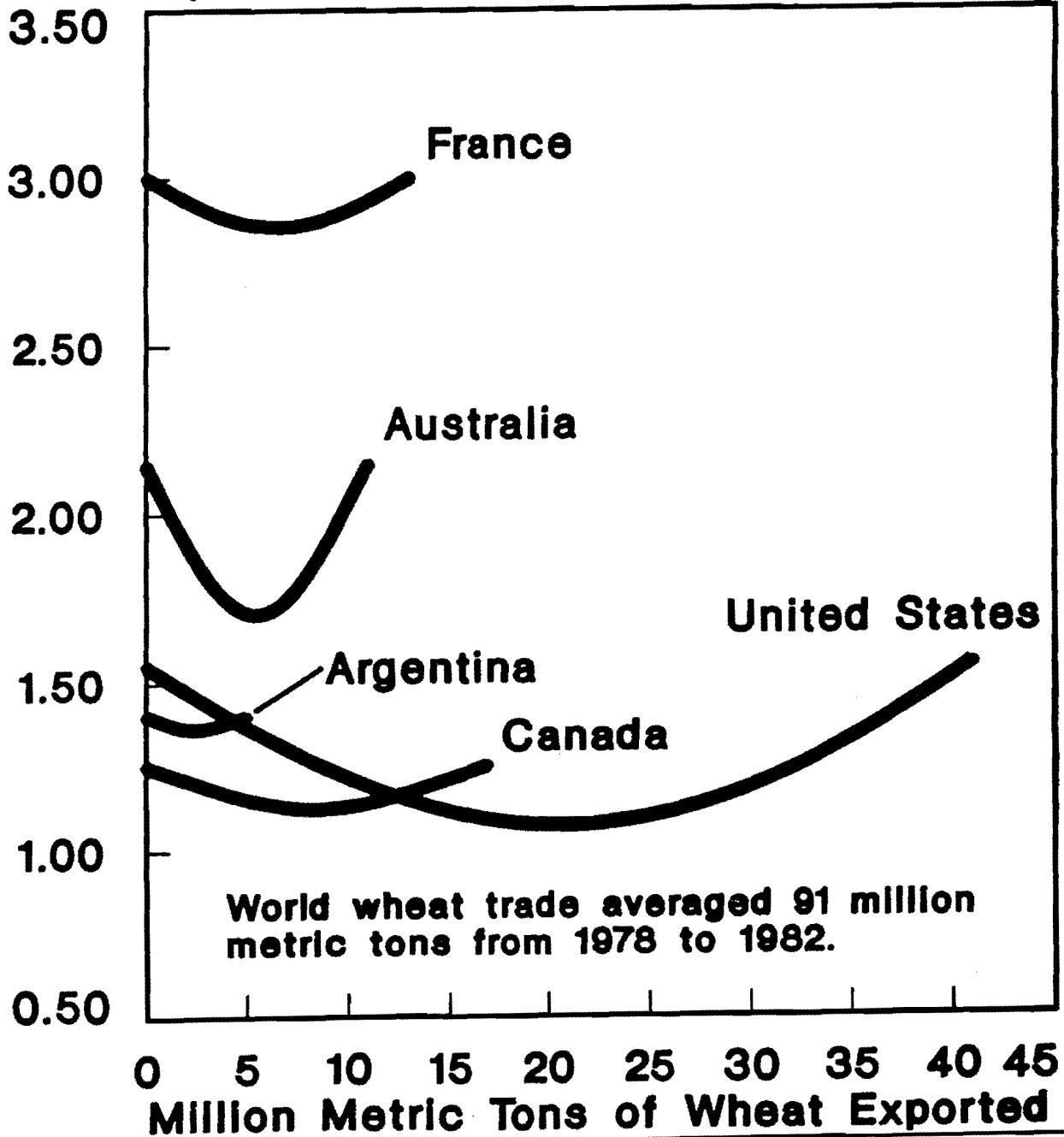
How does one determine whether if the United States is competitive — that is, has a strong comparative advantage — in world agricultural markets? Economists and policymakers must content themselves with measurements which capture only absolute advantage. To do so, they focus chiefly on estimates of production costs, and of productivity.

ERS analysts who have attempted to measure these indicators believe that the United States improved its absolute advantage throughout the 1970s.¹ Productivity growth, which measures the increase in output per unit of input, has been higher in recent years for the United States than for the rest of the world. Also, when one looks at the chief producing regions, U.S. variable production costs for major commodities appear to be equal to or less than those of competing nations.²

If these estimates are sound, then why are American farmers struggling through a protracted financial crisis and why are U.S. agricultural exports approximately \$17 billion lower than they were five years ago? The answer, like the question, is twofold: U.S. agriculture is dependent upon a healthy export sector, and the international trading system is highly integrated;

Variable Costs of Production and Export Volumes in Selected Countries, 1978-1982 Average

Dollars per bushel in variable costs



Variable Costs of Production and Export Volumes In Selected Countries, 1984-1985 Trade and Exchange Rates

Dollars per bushel in variable costs

2.00

1.50

1.25

1.00

0.75

0.50

France

Australia

Canada

United States

Argentina

World wheat trade in 1984 was 105 million metric tons; Trend trade levels would have been 112 million metric tons.

0 5 10 15 20 25 30 35 40 45
Million Metric Tons of Wheat Exported

many factors, both economic and political, affect both the volume and value of farm exports.

Macroeconomics and Governments

In an ideal world, supply and demand would sort out which countries would produce and trade various goods and services. **Market forces, if not distorted by the actions of governments, should generally lead to an equilibrium condition under which countries produce what they can make most efficiently – relative to other countries – and import those goods and services which other countries are relatively better at producing.**

It is a fact of economic life, however, that governments do intervene – and interfere – with trade. Indeed, the governments and commerce of some countries work together so closely that it is sometimes difficult to pinpoint just exactly where economics leaves off and politics begins. **Agricultural programs, trade laws, and even foreign policies may give a competitive edge to a country which would not otherwise have significant comparative advantage.** Government policies have even been known to reverse the roles of importer and exporter.

Here then, is the central issue. The condition of U.S. agricultural competitiveness in world markets is currently determined more by political and economic forces on a worldwide stage than they are by the factors of production of the American farm itself. If measured in terms of cost of production and productivity, American agriculture is competitive in comparison with producers in most other leading exporting nations. When, however, we factor in government policies – and worldwide economic considerations, such as exchange rates or rates of economic growth, which are themselves often determined by government policy – U.S. agricultural competitiveness comes under increasing pressure. **What, then, are the critical factors which currently shape our nation's agricultural competitive position?** A short list would include the following:

Factors in U.S. Agricultural Competitiveness

Macroeconomic Considerations

- Exchange Rates

Government Policies

- U.S. Domestic Policies
 - ▶ U.S. Agricultural Policies
 - ▶ U.S. National Economic Policies
 - ▶ U.S. Agricultural Trade Policies
 - ▶ U.S. Agricultural Trade Programs and Practices
- Competitor Nation Policies
 - ▶ Domestic Agricultural Policies
 - ▶ Agricultural Trade Policies and Practices
- Third World Country Policies
- Policies of Centrally Planned Economies

Industry Related Factors

- Quality Issues
- Infrastructure

The early 1980s have shown that factors such as these affect the level of American agricultural trade. Exchange rates are perhaps the most noteworthy example, but numerous other factors, such as the debt crisis faced by developing countries, the purchasing decisions of large importing nations, and the increase in foreign agricultural production, can also affect the level of U.S. exports, and consequently, the welfare of the U.S. agricultural industry.

Tables attached to this subsection of the final report document the relative competitiveness of U.S. and competitor nations in terms of cost of production for a variety of commodities. Such information has been collected by the Commission from a variety of sources. As indicated earlier, worldwide cost of production data is not completely reliable. While the Commission cannot vouchsafe the accuracy of the data attached hereto, it believes it to be the best information currently available on the subject.

FACTORS AFFECTING U.S. COMPETITIVENESS

The internationalization of agriculture in the past 20 years has left the American farmer prey to numerous influences utterly beyond his control. In one sense, this is not a new phenomenon. The major Federal farm programs now in use were born in another era when farmers were buffeted by powerful and malign economic forces: the Great Depression. However, because a much smaller portion of agricultural production was traded internationally in the 1930s, farm legislation tended to be somewhat parochial in scope.

Today, as the second chapter of this Report clearly demonstrates, producers are even more susceptible to events beyond the farm gate. The American farmer trades his commodities in a world market. An insurrection or a flood in a distant part of the globe can have important impact upon what price he receives for his harvest. Domestic farm programs are only one part of a constellation of forces affecting the agricultural sector.

The remainder of this chapter will identify and briefly describe some of the major forces of influencing the world trade environment and the United States' ability to compete internationally. It will thereby set the stage for fuller discussions which will follow in the report.

MACROECONOMIC CONSIDERATIONS

Exchange Rates

In any study of recent trends in U.S. agricultural exports, exchange rates usually receive top billing in a roster of major influences on trade. There is good reason for this. Before an importing country buys American grain, it must first buy American currency: dollars. When the value of the dollar changes, the prices of underlying U.S. commodities are also affected.

The exchange rate is the cost of one currency in terms of another currency. When a unit of domestic currency will buy more of a foreign currency now than it did in the past, the domestic currency is said to have strengthened (or appreciated) relative to the foreign currency. If dollars are a great deal more expensive to

day than they were a year ago, but the price of corn, for example, has not changed substantially, the importer will be able to buy fewer bushels for the same number of deutsche mark, yen, or pesos.

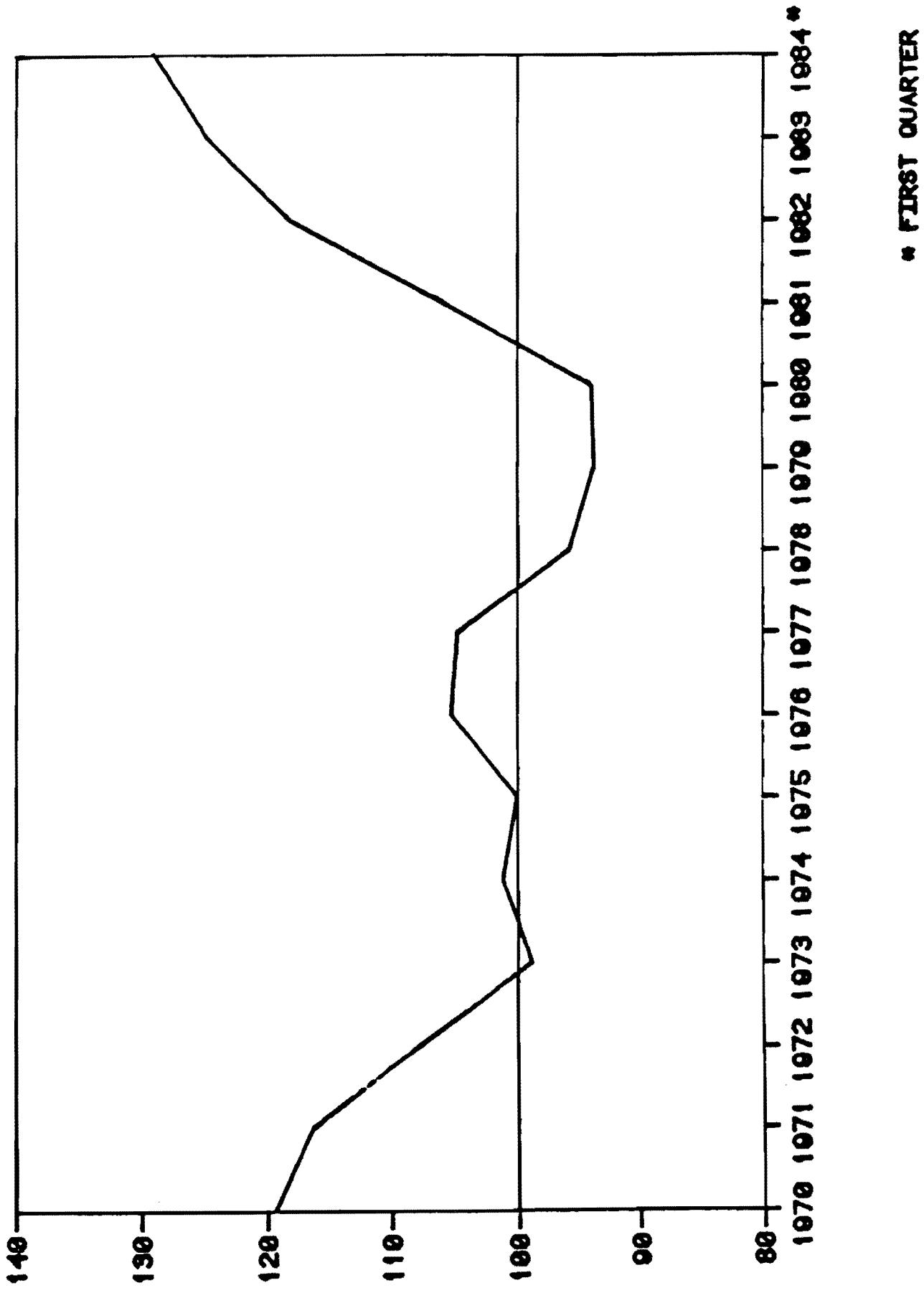
This describes exactly what has happened to the dollar during the first half of the 1980s. West Germany, a major importer of U.S. farm goods, can serve as a good example since the dollar has experienced wide fluctuations vis-a-vis the German mark (DM). The exchange rate between the two currencies rose from 1.75 DM/\$ in February of 1980, to a high of 3.30 DM/\$ in February of 1985, and then fell to 2.20 DM/\$ in June of 1986. If the U.S. soybean export price had remained constant at \$6.00/bu. for the whole period, the price paid by German processors would have swung from 10.50 DM/bu., up to 19.8 DM/bu., back down to 13.2 DM/bu. during the six years.

Soybean prices, of course, did not remain constant. Since most international commodity sales are denominated in dollars, the strengthening of the dollar had the paradoxical effect of raising prices received by foreign producers while lowering the price received by American producers.

Because the strong dollar meant that importers around the world had to pay a higher effective price for U.S. soybeans, they bought less. The consequent drop in exports – which in 1984 accounted for 57 percent of total U.S. soybean production – had a devastating effect upon prices received by American producers. The decline in overseas demand forced farm gate prices down over those years, to a point where soybeans fell below the \$5.02/bu. minimum nonrecourse loan rate. Once that happened, farmers forfeited their loans and turned their crops over to the Commodity Credit Corporation (CCC). The U.S. Government, rather than importers, became the principal market for soybeans.

The strong dollar, of course, had just as harmful an effect on other commodities. In the case of corn, the prices received by American farmers fell 5 percent between 1980 and 1983. Buyers, however, witnessed a different trend: "[I]mporting countries in 1983 were paying about 40% more in real terms than they were paying in 1980 to buy U.S. corn."³

EFFECTIVE EXCHANGE RATE OF THE U.S. DOLLAR
1975 = 100



Because trade is influenced by a multitude of factors, it is difficult to determine exactly how much of the loss in U.S. agricultural exports is directly attributable to the strength of the dollar. **A 1983 ERS report estimated that "a 20-percent rise in the value of the dollar will reduce farm exports by 16 percent."**⁴ The extent of the dollar's effect upon exports will vary according to the mix of other factors, but its effect is unquestionable.

The impact which exchange rates have had upon agricultural trade in recent years is perhaps the most striking example of how macroeconomic forces can operate to the detriment of the farming sector. Exchange rates are largely beyond the sphere of influence of the agricultural community. In the 1985 Farm Bill, Congress sought to modify farm programs so that they could better adapt to changes in trade. But in the short term, such measures will at best only enable American agriculture to roll with the punch.

Of similar importance was passage of the Balanced Budget and Emergency Deficit Control Act of 1985, popularly known as the Gramm-Rudman, which signaled the resolve of Congress to bring the federal budget under control. Most analysts believe that a more responsible fiscal policy will bring the dollar back into alignment with other currencies, thereby boosting exports.

Some observers believe this may already be happening. Between February 1980 and February 1985, the dollar appreciated by 21.6 percent on the basis of an agricultural trade-weighted exchange rate index. Between February 1985, and February 1986, however, the dollar has fallen by approximately 17.6 percent.⁵

Despite the much-hoped-for decline in the value of the dollar, U.S. overseas farm sales are still forecast to register a lackluster \$27.5 billion in 1986. Why is this? In the first place, analysts speculate that many foreign buyers are holding off on their purchases until the end of the year, when congressionally-mandated cuts in price supports have worked their way through the marketing system and resulted in dramatically lower prices.

Second, because not all countries have a floating exchange rate regime, currency value

fluctuations are not always immediately felt in the agricultural commodities market. Even though the dollar may have depreciated significantly against major European currencies, dollar declines against other major competitor and importer currencies have been sticky. Indeed, against some currencies, such as the Canadian dollar, the U.S. dollar has actually continued to rise. In a recent article, Oklahoma State University agricultural economist David Henneberry demonstrated that a significant portion (approximately 40 percent) of U.S. farm exports are sold to countries with exchange regimes that are relatively unresponsive to changes in short run market forces. Henneberry notes that "[i]n the long run, the exchange rates in inflexible regimes may respond to market forces, but the adjustment may be large and unanticipated."⁶ The implied volatility may argue for some form of management of exchange rate fluctuations.

GOVERNMENT POLICIES

It is important to keep in mind that, despite certain reverses in the past decade, the United States still has had by far the dominant economy in the world. The United States has the highest Gross National Product, one of the highest per capita income levels, and is the largest trading nation. It stands to reason that the policies of the U.S. Government are bound to have an impact upon world trade. Actions of the Congress, the Executive Branch, and the Federal Reserve Board are all closely watched by foreign commercial interests as well as by foreign governments. This applies to farm policy as well as to general economic policy.

In addition, the national policies of other countries have a direct and material affect on U.S. competitiveness. Most countries have domestic farm programs designed to regulate production and prices. All countries utilize national economic policies to influence income and employment. Finally, most competitor nations administer trade policies designed to manage, in some degree, total imports and exports. **Each of these policies and programs in one fashion or another has a role in determining the international environment in which U.S. agriculture must operate.**

U.S. POLICIES

U.S. Domestic Agricultural Policies

Price is the keystone of competition. All other factors (quality, politics, transportation costs, etc.) being equal, the firm which offers the lowest price is the one which closes the sale. **In agricultural trade, the American price is regarded as the international reference price for many commodities.** This is due to a number of factors. The United States is the world's largest exporter and second largest importer of agricultural commodities. In addition, the sophisticated price discovery system represented by the 11 American futures exchanges enables markets to react almost instantaneously to shifts in supply and demand factors. Finally, as mentioned earlier, the dollar has become a form of global currency. Most commodity transactions worldwide are settled in dollars.

Farm programs which affect the price of U.S. commodities, therefore, also influence the price and trade flows of world commodities. Since price enhancement is frequently one of the major objectives of U.S. farm policy, it is instructive to briefly examine that policy from a trade as well as a domestic perspective.

The Past. Since the 1930s, federal farm programs have played an important role in governing the size and type of agricultural production. Over the years, the government has relied chiefly upon three policy tools: price supports, supply controls, and income supports.

Many analysts have argued that the export boom of the 1970s created a condition in which traditional farm programs not only failed to accommodate the increased demand, but actually worked against it. U.S. competitiveness, they argued, was hampered by inflexible programs that encouraged over-production at home and abroad, and overpriced American commodities, causing the United States to lose its share of the world market.

High nonrecourse loan rates are frequently mentioned as the chief culprit. When the loan rate is set above market-clearing levels, farmers simply turn their crops over to the Commodity Credit Corporation and retain their loans. Thus, loan rates act as a price floor for U.S. farmers.

At the same time, however, a high U.S.

loan acts as a price umbrella for foreign producers. Imagine a situation in which, in an unrestricted trade environment, world supply/demand conditions would naturally set the price of wheat at \$3.00/bu. Despite strong market signals, however, the American price of wheat will not fall much below the nonrecourse loan level (in 1985) of \$3.30/bu. Non-U.S. exporters with comparable production costs would be able to price their wheat a nickel under the United States, capture market shares, and still walk away with a windfall profit.

The target price/deficiency payment program has also been criticized for eroding the American competitive position. Critics charge that artificially high target prices have encouraged U.S. farmers to maintain or increase production even when stocks are high and prices are low. Deficiency payments are directly proportional to output: the more a farmer harvests, the larger his payments (subject to a \$50,000 limit per person on regular deficiency payments). The assurance of large deficiency payments, many analysts agree, has induced farmers to bring additional acreage under cultivation. In the aggregate, this has increased production nationwide.

Finally, supply management programs – set asides, acreage reductions, and, loosely speaking, the farmer-owned reserve – are criticized as being inefficient and illogical methods for responding to low prices. Many observers point out that land diversions and set-asides usually fail to achieve their objectives; because of slippage, a 20 percent land retirement program never results in a 20 percent decline in production. Many also question why the United States should unilaterally bear the costly burden of international supply adjustment. Moreover, extensive use of the farmer-owned reserve and large CCC takeovers mean that the United States pays the price of holding world stocks. Finally, the short term price-enhancing aspects of supply controls contribute to making the United States the world's residual supplier of grains.

Critics of traditional farm programs summarize their arguments by noting that although exports represent approximately one-third of total demand for agriculture, the United States has steadily lost market shares

in recent years because of the inflexibility of domestic farm programs.⁷ High support and target prices also encourage continual overproduction, which is costly for U.S. taxpayers.

The Present. On December 23, 1985, President Reagan signed the Food Security Act (P.L. 99-198) into law. Final approval by the White House signaled the end of a long, often bitterly-fought debate over the extent and nature of the government's role in agriculture.

To many, the five-year omnibus farm bill represented a radical departure from past agricultural policy. Although the basic programs were retained, Congress reversed the trend of ever-escalating price support rates. Changes made in domestic programs, therefore, actually constitute a particularly noteworthy feature for the trade sector.

Under the new law, price supports were lowered for 1986, and linked to historical market prices in future years. The formula for major commodities sets the loan rate at a level between 75 and 85 percent of the average market price for the preceding five years (excluding the high and low years). The loan rate reduction would be accomplished gradually. The level would not be allowed to be lowered by more than 5 percent per year.

The law contains an additional incentive for increasing price competitiveness: the so-called "Findley provision." Under this provision, the Secretary could elect to lower the loan up to an additional 20 percent, provided that he offered producers emergency deficiency payments to compensate for their losses. Before stepping down from office, former USDA Secretary John Block elected to use the Findley provision to its fullest extent.

The 1985 Farm Bill lowered the loan rate for wheat from \$3.30/bu. to \$3.00/bu. for 1986. However, the use of the Findley provision meant that the 1986 loan could be lowered another 20 percent – to \$2.40/bu. – as it was. Loan rates for other major commodities were reduced in like manner. Most analysts feel that the new levels will be sufficiently below the world price to allow the United States gradually to become price competitive once again.

On the other hand, lawmakers left short-term income supports largely untouched. Un-

der the new law, target prices for wheat and feed grains were frozen for 1986 and 1987; after that, they may be lowered only by 2 percent in 1988, 3 percent in 1989, and 5 percent in 1990. The \$50,000 payment limitation was maintained for regular deficiency payments, but waived in the case of compensatory deficiency payments under the Findley provision. The Administration, contemplating sizeable deficiency payments, objected to the target price provisions, but accepted the agreement in the interests of compromise. The White House announced that it would continue to seek deeper, earlier cuts in target prices.

The 1985 Farm Bill also called for more extensive supply controls which would be tied to carryover levels. In the case of wheat, the bill allows the Secretary to require acreage limitations of up to 25 percent in 1986, 27.5 percent in 1987, and 30 percent in 1988-90. For feed grains, the ceiling is set at 20 percent for 1986-90. It is hoped that the increased acreage reduction requirements will serve to counteract the production incentive of continued high target prices, and that the resultant price enhancement will hold down deficiency payments.

Taken as a whole, the 1985 Farm Bill represents an attempt to accomplish two goals: 1) balance the short-term cash flow needs of producers through direct income transfer; and 2) respond to the United States' need to become price competitive in world markets through lowering the nonrecourse loan rate.

It seems certain that neither goal can be accomplished completely or immediately. Unfortunately, the law's income assistance provisions alone will not be sufficient to rescue many financially troubled farmers. Despite a possible maximum deficiency payment of \$1.98/bu., many highly leveraged wheat producers will probably not make it through the next few seasons. Coarse grains producers will be similarly hard-pressed. A study by the Office of Technology Assessment forecasts that there will be almost 1 million fewer farmers in the United States at the end of this century than there are today.⁸

Although lower prices will probably stimulate greater export volumes, it is not anticipated that total export revenues will rise appreciably in the short term. Most analysts

forecast a four-year lag before export values recover their earlier levels.⁹

U.S. National Economic Policies

U.S. macroeconomic policies can have a strong influence upon the competitiveness of the U.S. agricultural sector. Many economists argue that recent federal deficits of unprecedented proportions have proven to be particularly damaging to trade.

Large federal budget deficits restrict exports, both indirectly through higher interest rates and a stronger dollar, and directly through funding restrictions on export enhancement programs. Programs that promote exports actually help reduce the trade deficit and the Federal budget deficit through reduced CCC price support costs, and decreased pressure on interest rates. Increased economic growth also cuts expenditures on government transfer payments such as food stamps and unemployment compensation.

The huge federal budget deficit indirectly creates a strong dollar, which restricts U.S. exports. Increases in the Federal budget deficit also exert upward pressure on the interest rate. **As the Federal government borrows more money, it tends to crowd the private sector out of the debt market through increasing competition for available private, state, and local net savings. The higher the real U.S. interest rates, the more likely the U.S. dollar will strengthen in relation to other currencies.** As noted earlier, a strong dollar makes U.S. exports more expensive to foreign customers in terms of their own currencies.

Reductions in the budget deficit under Gramm-Rudman-Hollings should allow interest rates to decline and the value of the dollar to weaken in relation to other currencies. A weaker dollar should result in increased agricultural exports. This chain of events, however, could take several years to occur.

The huge budget deficit has not only restricted agricultural exports through its effect on interest rates, the value of the dollar, and trade flows, it has resulted in restricting the implementation of any export enhancement program that is not at least revenue-neutral in each year of operation, a cost which most regard as politi-

cally prohibitive. Some programs such as direct export credit stand little chance of being implemented. Even though they may decrease the federal deficit during the life of the program, they may have a net outlay in the first year of operation.

The enactment and operation of agricultural programs have traditionally been the domain of the Congress and the Executive Branch (principally the Secretary of Agriculture).

In addition, depending on the outcome of current debate regarding the actual operation of the decision-making mechanisms contained in Gramm-Rudman-Hollings, new authority may be transferred to the Office of Management and Budget and the Congressional Budget Office. These agencies, not Congress or the USDA, would be in a position to require across-the-board cuts in such programs as deficiency payments, price supports, and cash and credit export enhancement programs should the President and Congress fail to agree on sufficient budget reduction measures to reach the budget deficit targets.

However, other federal agencies charged with formulating macroeconomic policy have had a significant impact upon the agricultural sector. For example, the Federal Reserve Board's decision to clamp down on inflation caused interest rates to shoot upward; and since agriculture is one of the nation's most capital-intensive industries, this policy had serious consequences for farmers. **The Treasury Department's efforts in the area of tax reform and exchange rates will also doubtless affect the rural economy.**

U.S. Agricultural Trade Policies

Most discussions of farm programs begin and end with analyses of the technical aspects of the programs themselves: Where were loan rates and target prices set? How many acres were retired from production? What effect did price changes have upon demand? How much was appropriated for export credit? Which countries purchased from the United States? What was the export level and market share for various commodities?

But as leaders in the agricultural field know full well, the success or failure of a pro-

gram often resides in the manner in which it has been implemented. And decisions on how to manage a farm program – especially one dealing with agricultural trade – are not always strictly within the purview of the U.S. Department of Agriculture.

The influence of outside interests upon the agricultural sector has become painfully evident in times of crisis. In January of 1980, the Carter Administration responded to the December Russian invasion of Afghanistan by suspending additional grain sales to the Soviet Union; this policy was maintained three months into the Reagan Administration. Many believe that the Russian grain embargo damaged the United States' reputation as a reliable supplier. This policy action has been frequently cited as the classic example of how the interests of one government agency – in this case, the State Department – are accommodated at the expense of agriculture.

Another example familiar to policymakers in the 1980s is the influence exercised by the Office of Management and Budget (OMB) upon farm program spending. Some observers have argued that the costly 1983 payment-in-kind (PIK) program was necessitated by OMB's refusal in 1982 to countenance supply controls of sufficient magnitude. The decision not to fund the export credit revolving fund, and the "bare bones" farm bill submitted in early 1985 by the Administration (and largely ignored by Congress) are also cited as examples.

However, it is important to keep in mind that each and every major policy decision made by USDA is subjected to the scrutiny of several other government agencies. Each proposal must wend its way through several interdepartmental working groups, task forces, and councils before it is finally approved for action by the White House. Just who makes up these groups, and how much clout does agriculture have when its fate is being decided? And which is more important, the structure of the various committees, or the individuals who make up those committees?

Since 1985, the Reagan Administration has made important changes in its interagency policy process. At the outset, the Administration employed a hierarchical series of groups which overlapped one another. The resultant turf

problems reportedly led to policy stalemates. However, a subsequent restructuring of the trade policy process has, in the eyes of many, balanced the input from various agencies.

A separate chapter of this report discusses three policy issues – all aimed at increasing the competitiveness of American agricultural trade. These policies – the 1982 EEC strategy paper, the Blended Credit Program, and the Export Incentive Program – were developed at different periods of the Reagan Administration's tenure. The chapter shows how each policy originated and then compares the policy as implemented with the policy as conceived.

U.S. Agricultural Trade Programs and Practices

The federal government – especially the Department of Agriculture – conducts a number of programs aimed at improving the United States' competitive position in world agricultural markets. The two most obvious examples of this activity are export credit and promotional programs, but a number of other endeavors also affect the level of U.S. trade, both exports and imports. Such efforts include concessional food assistance programs, trade negotiations, and trade controls. Over time, these various programs have been developed, fine-tuned, and sometimes discarded in response to changing conditions in world trade.

Credit Programs. Since the mid-1950s, the USDA has used a variety of credit programs to assist the sale of U.S. farm goods abroad. These programs differ both in the manner in which credit is provided, and in the time granted for repayment.

Short-term, direct export credit (GSM-5) was offered by USDA from 1956 to 1980. Under this program, USDA directly offered importers three-year credit at below-market rates. In 1978, USDA also began to offer guarantees against political risk through GSM-101, under which the CCC guaranteed bank loans up to three years. That same year, two intermediate (three to ten years) credit programs were initiated: GSM-201 was used to boost exports of American breeding animals, and GSM-301 was intended to help develop infrastructure in recipient countries. Neither of these programs has been used exten-

sively to date. In the 1981 Farm Bill, Congress authorized a short- and intermediate-credit revolving fund; however, no monies have yet been appropriated for the program. For primarily budgetary reasons, USDA in the 1980s has relied upon two programs: guaranteed credit (GSM-102), and another short-term (six-month to three-year) program, blended credit – a combination of direct (GSM-5) and guaranteed (GSM- 102) credit.

With the creation of GSM-500, the 1985 Farm Bill institutionalized a program which had already been administered sporadically by USDA: export payment-in-kind. Under this program, the federal government provides surplus commodities to selected countries which import agricultural commodities from the United States. Variously called Export PIK, BICEP (for Bonus Incentive Commodity Export Program) or the Export Enhancement Program (EEP), this program has been used principally to counteract the export subsidy practices of competing world suppliers – especially the European Community.

In varying degrees, these programs have played a key role in bolstering trade in U.S. farm goods, especially to countries which, under normal circumstances, would not have had the means for commercial purchases. In the past three years, these programs have been responsible for financing approximately 10 percent of total U.S. agricultural exports. They have been used both to develop new markets, and to combat the unfair trading practices of foreign competitors.

Recently, USDA performed a cost/benefit analysis of the Fiscal Year 1984 performance of GSM-102, the credit program used most extensively in recent years. Department analysts found that, due to increased tax revenues from export sales, savings on farm program storage costs, and the collection of credit guarantee fees, the program's benefits outweighed its costs by a factor of 1.3 : 1.

Export promotion. USDA operates several programs aimed at promoting U.S. agricultural products to overseas customers. The most extensive of USDA's market development programs is the cooperator program. This program had its beginnings in the 1954 Food for Peace (P.L. 480) Act, which allowed a

certain portion of foreign currencies generated by the sale of U.S. farm products to be used to develop markets for U.S. commodities. A decade later, Congress began appropriating funds directly for the program.

It is important to note that the cooperator program enjoys joint financial support. USDA's Foreign Agriculture Service (FAS) operates the program in cooperation with numerous private, nonprofit trade associations, which attempt to match or surpass federal funding. There are approximately 50 such commodity groups today, operating from a worldwide network of offices. In conjunction with FAS, the cooperators promote U.S. farm exports through technical assistance, trade show exhibits, advertising, and product demonstrations for potential U.S. customers.

Just how effective is the cooperator program? A Chase Econometrics study commissioned by U.S. Wheat Associates found that "each dollar contributed by producers for [wheat] market development purposes has returned \$100 of additional income from wheat sales to the grower and returned \$133 to the U.S. economy." Another assessment of the cooperator program, prepared for the American Soybean Association, concluded that "[c]heckoff-funded export promotion creates soybean export sales and increased average U.S. soybean prices 8 cents a bushel yearly."

Food Assistance. The Federal government conducts a number of programs which provide food relief to foreign countries. The major conduit for food aid is the Food for Peace (P.L. 480) program. As mentioned earlier, Congress enacted this program over 30 years ago. One of the reasons this popular program has enjoyed such widespread support is that it has multiple objectives: P.L. 480 is intended not only to promote economic development and provide humanitarian food assistance, but also to further U.S. foreign policy and to help develop commercial markets for U.S. farm exports.

Most observers agree that P.L. 480 has been effective in increasing U.S. competitiveness. The fact that 7 of the 10 largest commercial importers of U.S. farm goods are former P.L. 480 recipients amply demonstrates the truth in the claim that "trade follows aid". P.L. 480 also helps move commodities on a year-to-year ba-

sis. In the past few years, between 3 and 5 percent of U.S. agricultural exports were donated or shipped under concessional government programs – mainly Titles I & II of Food for Peace.

Trade Negotiations. The status and outcome of trade negotiations are another element in the overall U.S. competitive position. Since the end of World War II, a majority of the world's nations have participated in multilateral negotiations aimed at reducing trade barriers. The preeminent vehicle for such deliberations is the General Agreement on Tariffs and Trade (GATT). GATT, which currently has nearly 90 signatory nations, contains guidelines for the conduct of commerce as well as a mechanism for settling disputes between nations. The agreement also serves as a forum for regular discussions on additional ways to ease tensions and liberalize world trade. Given the enormous growth in global trade in the past 40 years, there seems to be little doubt that the GATT has had some measure of success.

Agricultural trade is one of the more problematical areas in the GATT. A majority of GATT disputes has involved agricultural commodities. A later chapter in this report will discuss how vaguely-worded exemptions for agriculture granted in the subsidies code have effectively prevented farm trade issues from being successfully resolved.

It has often been said that, because domestic agricultural policies collectively affect trade through distorting prices and production, GATT will eventually have to come to grips with these policies. U.S. negotiators believe this is especially important in the case of nations – such as the EC – that export their surplus production. The practices of state trading agencies are also an area of concern to the United States and others.

Many in the U.S. agricultural community are also dismayed by the length of time it takes for GATT panels to rule on disputes. Some agricultural cases have taken nearly a decade to get a determination. In addition, critics have questioned the equivocal manner in which some cases have been adjudicated. Finally, the GATT has come under fire for having weak enforcement provisions.

Critics of the GATT process argue that U.S. policymakers should prepare carefully before entering another round. Such preparation might include a close and candid assessment of the United States' own agricultural policies – to ascertain what, if anything, we are willing to concede – as well as a critique of the policies and practices of other exporters, especially the EC. They also argue that the United States should go to the talks from a position of greater strength. **One way to do this is to signal our unwillingness to continue to accept loss of market shares to the EC and others. This may be done through the use of targeted export enhancement programs.**

U.S. agricultural interests are represented at GATT meetings through agricultural trade specialists in the Office of the Special Trade Representative. USDA and numerous other Federal agencies are, in addition, consulted on an ongoing basis on issues of concern.

There are other trade negotiations – both multilateral and bilateral – besides the GATT. The United States is a member of several international commodity agreements (e.g., those covering sugar, coffee, and wheat, as well as the Multi-Fiber Agreement) which seek to address the needs of both producing and importing nations, mainly through stabilizing supplies and/or prices.

On a one-to-one basis, the United States, like other food exporters, has occasionally entered into bilateral long-term trade agreements with other nations. These agreements can be likened to forward contracts – but without any public mention of price. The United States has had grain agreements with the Soviet Union, Mexico, and the Peoples Republic of China. Long-term pacts are made in an attempt to achieve market stability for the contracting parties through locking in supply commitments over a longer time period.

Some agricultural leaders are uncomfortable with both of these types of arrangements. They believe that commodity agreements too closely resemble noncompetitive cartels such as OPEC, and that inflexible long-term agreements can also create market distortions. In general, however, such agreements are largely supported by the U.S. agricultural community.

Trade Controls. The Export Administration Act and other laws permit the Executive branch to restrict and sometimes halt exports and imports of agricultural commodities for short supply, foreign policy, or national security reasons, a power which, in the past, has tended to undermine U.S. competitiveness. Some past actions have been quite controversial. The earlier-mentioned 1980 Soviet grain embargo, which was applied to register U.S. objection over the Russian invasion of Afghanistan, is just one case in point. That suspension was applied for foreign policy reasons. Other, earlier embargoes (in 1973, 1974, and 1975) were applied because of concerns over supply levels.

Such interruptions in trade can have serious repercussions for U.S. agriculture. They can cause a short-term loss in farm income, as well as long-term losses in market share. The 1973 soybean embargo is a good example. Early in that year, U.S. oilseed stocks appeared to be in short supply. Faced with strong world demand and escalating prices, the Nixon Administration imposed export restrictions on oilseed products. Although controls were lifted after just three months, the damage had already been done.

A 1985 congressionally-mandated USDA study, contained elsewhere in this report, indicated that the 1973 embargo caused lower than anticipated exports for that year, reduced the U.S. share in world soybean markets in following years, and tarnished the United States' image as a reliable supplier. In the aftermath of this embargo, the food-security conscious Japanese invested heavily in Brazilian soybean processing facilities, thereby diversifying their sources. From 1970-72 to 1980-84, the U.S. share of the world soybean product market declined from 81 to 58 percent, despite large increases in production.

Congress has made several attempts to protect agriculture from becoming a tool of economic and foreign policy. Provisions for dealing with embargo protection and contract sanctity are contained in numerous acts, including the 1977 and 1981 Farm Bills, the 1982 Commodity Futures Trading Act, and the 1985 Export Administration Act.

The federal government may also exer-

cise control over the importation of agricultural commodities. Several U.S. laws allow the President to impose tariffs, fees or quotas on agricultural imports under certain conditions. The most well-known and widely-used such law is Section 22 of the Agricultural Adjustment Act of 1933, which authorizes the application of a maximum 50 percent quota or *ad valorem* fee on imported commodities that are judged to be interfering with U.S. domestic commodity programs. Over the years, Section 22 has been used to protect at least 12 different agricultural commodities. Today, milk, cotton, and peanuts are sheltered under Section 22. Sugar imports are restricted under the U.S. Tariff Schedule.

Although producers and processors who obtain relief from imported products support the use of Section 22 and other such laws, others are critical of the practice. Some believe that the United States should concede that it may not be competitive in all commodities and dispense with restrictions on all non-subsidized products brought into the United States. Such an action, however, would cause severe adjustment problems in the affected industries.

COMPETITOR NATION POLICIES

Competitor Nation Domestic Agricultural Policies

No less than U.S. domestic agricultural policy, the domestic policies of other countries can have a direct and detrimental effect on U.S. agricultural competitiveness. In certain cases, such policies encourage production, even when such production is "uneconomic." A sampling of such policies would include the following:

Argentina. National policies have moved to a reduction of government controls in the agricultural sector. Whereas the Junta Nacional de Granos (JNG/National Grain Board) once held monopoly powers for grain and oilseed marketings, its role is now mainly to handle limited administrative functions, negotiate government-to-government purchasing agreements, and influence nominal export prices through daily postings of a "minimum export price" (MEP). **Exchange rate controls and fiscal policies are the main tools used by the Argentine government to influence the marketing of most agri-**

cultural products and domestic production. Multiple exchange rates and a differentiated value-added tax system provide special incentives for the export of basic commodities as well as certain processed foods and prepared meats.

Traditionally, Argentina's producers have had government price guarantees and special terms for agricultural credits offered at terms below Argentina's traditionally high rate of inflation. The Junta guarantees producers 80 percent of the posted MEP. Although not necessarily representative of a true export sales price, government support payments to producers are linked through MEP to fluctuating international prices.

The Alfonsin government is attempting to modify these programs as part of its "austral" economic reform program to curb inflation. Despite the resistance which these programs have met from national agricultural organizations, the new measures are designed to continue the trend toward decontrols and market related production incentives. Export taxes may also be lowered to stimulate farm output and exports. Just how these programs, if successfully implemented, would affect exports remains to be seen. Argentina's priority is agricultural exports and the government continues to demonstrate a willingness to intervene whenever necessary to influence sales and market development opportunities.

Australia. Australia's agricultural system is dominated by statutory marketing boards for several commodities including wheat, most coarse grains, apples, and pears. In the case of wheat, the Australian Wheat Board is the sole wheat exporting authority. It has monopoly powers which are enhanced by a broadly defined jurisdiction. It is officially empowered, for instance, to trade wheat futures on commodity exchanges so as to hedge its own transactions. The Board now has offices in New York for the express purpose of handling these hedging operations. This capability allows the Board maximum flexibility on pricing its exports, thereby avoiding some of the pitfalls of operating a government monopoly.

Government underwriting programs offer producer guarantees which approximate market prices. Price equalization programs

provide additional income support. These and other programs stabilize returns to producers. Government marketing arms are, thus, limited by immediate producer income considerations in their efforts to promote Australian agricultural exports.

Brazil. The centerpiece of Brazil's economic growth strategy is industrial development. The government has traditionally offered massive investment financing assistance to the processing sector along with a range of export incentives and import restrictions. Subsidized rural credit is widely used as an incentive to raise production and lower the cost of basic commodities to processors. Government reforms reduced the subsidized lending limits under the production loan program (VBC). In its place, the National Monetary Council now offers a set of minimum support prices which are indexed throughout the course of the growing season. These prices then serve as a floor price if sold to the government or as a basis for marketing credit. Other reforms in domestic programs point to greater liberalization, but the degree to which they are actually put into effect remains in doubt.

Canada. Canadian programs vary widely, depending upon the commodity and its ultimate market destination. **Most notable, in the case of Canada, is the fact that products are either marketed for export through centralized institutions or are produced and processed generally in a provincial economic environment where price support and stabilization programs prevail.**

In the case of wheat, oats, and barley grown in the Western provinces of Manitoba, Saskatchewan, Alberta, and parts of British Columbia, the Canadian Wheat Board (CWB) is the sole marketing agency for interprovincial or international sales of these crops. The Board has effective monopoly powers in that it handles the sale of about 80 percent of the wheat, 40 percent of the barley, and 10 percent of the oats grown in Canada. These crops are produced under quota which thereby facilitates the Board's ability to access supplies for sales with a minimum of market disruption.

Canada's orderly marketing system reduces operational risks for the Board and contributes to income stability for producers. Pro-

ducer price guarantees, income stabilization programs at the federal and provincial levels, and transportation subsidies for Prairie pools (Canadian cooperative organizations in the Western provinces) provide another layer of protection for producers. Consequently, Canada has constructed a risk-averse agricultural system which relies on a high level of government intervention. It has sacrificed certain efficiencies of the marketplace in opting for this type of production and marketing system. There have been numerous incidents when the Board has been unable to maximize commercial trade opportunities. These have resulted in lower income for producers and/or higher taxes for consumers. Such situations are unavoidable as long as commodities are not freely traded among provinces or at the international level.

In terms of Canada's exports, the monopoly powers of the Board, producer stabilization programs, transportation, and other indirect marketing subsidies afford certain pricing advantages for Canadian products. Such programs inevitably serve as export incentives, but it is less clear whether they are instrumental to the retention of Canada's traditional share of world agricultural trade over the long-term.

The European Economic Community.
The EC is both a major importer and exporter of agricultural commodities. Its Common Agricultural Policy (CAP) offers internal price stabilization and production incentives maintained by a system of import controls and export subsidies. In effect, the EC has constructed a system of internal price stabilization in a world of supply and price instabilities. Aids to production vary according to the commodity but, at this stage when the EC has large crop surpluses, the fact that the level of price protection for European producers is still much higher than the international price for the same commodity is still a form of production incentive. Surpluses are an inherent part of the CAP as it is presently constituted, and will remain unchanged as long as such import controls as the variable levy system and export restitutions serve to prop up higher internal agricultural prices among members of the EC.

New Zealand. New Zealand has a mixed agricultural production and marketing sys-

tem where government marketing organizations work hand-in-hand with the private sector. There are boards with varying degrees of power for meat, milk, dairy products, tobacco, poultry, potatoes, apples, pears, wheat, and kiwi fruit. The New Zealand Dairy Board, for instance, has statutory power to acquire and market all dairy products intended for export. The Meat Producers Board, on the other hand, is undergoing changes in its operations which will reduce government involvement in export sales. When meat prices sagged in 1982, the Board took control of exports by buying meat from sheep farmers and not releasing stocks below a minimum sale price to wholesalers. Now companies can buy and sell on their own accounts.

Domestic programs are designed to satisfy the dual objective of income and supply stabilization. In many instances, the stabilization plans cover only 50 percent of producer income, thereby linking farming returns to trade performance. However, when export markets are sluggish, government programs provide supplementary minimum prices. In 1984, approximately four-fifths of government support payments were provided in the form of supplements.

Thailand. As a developing country, Thailand's import substitution and export subsidy related practices have not come under scrutiny. Now, however, given Thailand's emergence as a major agricultural exporter, the country's programs have more relevance to U.S. international trade interests. Thailand has a price support and stabilization system for the production of rice and manioc. The government buys rice from the growers at a "target" price set above the international market price in order to transfer income to farmers. These and other special government programs, such as preferential financing, have served to encourage domestic production. They have also helped create a farming structure oriented toward export markets.

Competitor Nation Agricultural Trade Policies and Practices

The United States is faced with stiff competition from other exporters of agricultural commodities and products. Foreign demand for traditional and specialized agricultural prod-

ucts has not grown relative to production worldwide. Moreover, in several categories there has been an actual decline in food and feed imports. These global market conditions have aggravated the single most important problem which all surplus producing countries face – the need to increase exports or, at a minimum, retain "traditional" market shares.

In an effort to boost exports, many supplier countries have introduced a range of policies and program incentives which go beyond internationally approved rules of competition. These policies and programs run the gamut of options, including:

- subsidized ocean transport;
- discounts on lower-quality crops;
- inland rail subsidies;
- export restitutions;
- tax credits for exporters;
- linkage of food assistance and commercial sales;
- differential export taxes on processed products;
- countertrade arrangements.

In varying degrees, these programs have proven to be successful in terms of national export promotion and market development, albeit frequently at the expense of the United States. The domestic agricultural systems of other exporting countries may have a similar end result to the extent that they enhance aggressive national trading strategies. Agricultural protectionism, for example, if selectively applied, can sometimes reduce the costs of export subsidies. To the chagrin of American agriculture, the European Community has demonstrated just how effective a combination of protectionist domestic and expansionist trade policies can be.

In addition, state trading organizations such as the Canadian or Australian Wheat Boards or New Zealand's Dairy Board may command certain pricing advantages unavailable to the private sector operating in the United States without some of the inherent advantages of monopoly powers.

Several competing suppliers have developed sophisticated strategies to promote their own national exports. Some of these examples may merit consideration for adoption by

the United States; others afford illustrations of what the United States should avoid in pursuit of its own national interests. An understanding of both types may be helpful when U.S. policymakers develop trade policies and negotiating positions.

Examples of such programs which can negatively affect U.S. competitiveness are cited below.

Export Subsidies

The countries and practices described below are not intended to serve as an exhaustive catalogue of prevalent export subsidy activities. The reader may note the absence from such commentary of any mention of centrally planned economies, such as Eastern European countries. Because most Eastern European countries are part of their own trading block operating under a system of special clearing accounts, their export programs do not include standard forms of direct and indirect subsidies. These countries' economies make a determination of subsidy in terms of domestic prices extremely difficult.

Further description of foreign export subsidies engaged in by countries other than those listed below is contained in the section of this report entitled, "Aggressive Action to Meet and Counteract the Effects of Unfair Foreign Trade Practices".

Argentina: With multiple exchange rates and differentiated taxes on exports, Argentina has not needed to rely on export subsidies to promote export sales. In fact, given the level of guarantees and the low level of capital intensive farming, Argentina is a cheap producer of grains, oilseeds, and meat. Consequently, it can under price most competitors (minus transportation and handling costs) without the use of export subsidies.

On the other hand, the government still maintains an export tax structure. By applying different duties for different commodities, the net effect is to encourage certain types of agricultural exports over others. In general, the export tax system set up in 1982 has as high as a 25 percent duty on unprocessed meats. The lower *ad valorem* duties were graduated downward on processed products with a zero level on such items as cooked and canned beef.

While the government has already introduced significant reductions in export taxes for wheat (down from 28.0 to 16.5 percent), they remain extremely high for corn, sorghum, and soybeans (30.5 percent, 29.5 percent and 34.0 percent, respectively).

If significant reductions in export taxes should occur, the net effect on export prices is likely to be null. Under the best of circumstances, the tax savings would be passed on in the form of additional income to growers. They, in turn, would be expected to respond with increases in production. If great enough, additional supplies could actually reduce export prices.

Australia: In general, there are no direct export subsidies because of the Australian Wheat Board's (AWB) extensive powers to initiate price cuts to suit individual transactions and still remain above domestic prices. There are, however, a number of indirect subsidies which are virtually invulnerable to any complaint under GATT rules. **Among the more significant forms of Australia's hidden subsidies are transportation/ocean freight, credit, and special package investment and technical assistance deals.**

In a recent packaging arrangement, Australia agreed to construct three storage elevators for a total of 90,000 mt in conjunction with the signing of a long-term purchasing agreement with Egypt. It was also reported that the Australians subsidized the freight costs on earlier shipments to Egypt and Colombia. Another reported practice involves piggybacking commercial sales to food aid shipments. Australian food aid recipients in Southeast Asia allegedly have been offered free or reduced transportation rates or have taken fully loaded ships instead of partial cargoes. Australia gains by making extra cash sales at the going FOB export price, and the developing country saves on transportation costs which can amount to as much as 25 percent of the landed price for wheat, which may be needed later in the season.

The AWB engages in another practice, common to the trade – discounting for lower-quality crop. This commercial practice resembles a subsidy when undertaken by a government agency like the AWB in that it results in an

effective reduction in export prices which may actually be below domestic prices of standard grade crop. The loophole is that a crop which is below an internationally priced standard has no pricing basis against which to make an assessment of subsidy. This problem arose when in 1985 Australia sold approximately 800,000 mt of feed quality wheat to South Korea. By discounting the wheat in its purchases from Australian producers in the first instance, the AWB protected itself from any charge of subsidy. Even though the Board priced the feed wheat sale off of internationally traded corn, it was indeed non-standard wheat which was sold; hence, what otherwise might have constituted a subsidy in this case can only be considered appropriate commercial acumen on the part of the Board.

Australia also has an "Export Expansion Grants Act" which provides incentives to encourage exports. However, the following products are ineligible: wheat, sugar, livestock, and meat.

Brazil. Like Argentina, Brazil has opted to use several indirect forms of subsidies as incentives for exports and as a tool for industrial policy. In the case of soybeans and sugar, for instance, Brazil applies different export tax rates according to the level of processing (ICM) involved. Selective tax rates are designed to promote such value-added products as soybean meal, oil, and gasohol over the sale of the raw product.

The U.S. government considers this type of tax exemption and deduction a direct subsidy along with other practices common to Brazil's export and industrial development strategies – "preferential production and preferential export financing."¹⁰ Moreover, it claims that such policies have resulted in displacing value-added U.S. exports from the market and depressing international prices. Whatever legal substance there is to these claims, there is no question but that Brazil is without question pursuing a decisive industrial development strategy where export promotion by means of indirect export subsidies plays an extremely important role.

Canada. In the absence of direct subsidies, the Canadian system, like several of its counterparts, inevitably makes use of indirect subsidies to improve its export position.

The main focus of attention has been on rail subsidies which allow CWB-traded commodities to be transported at below-market rates. This saving ultimately can be passed on to importers at a below-market delivery price. Another claimed transportation subsidy is the "At and East" (Atlantic and East of Buffalo) rates which apply to grain moving for export by rail received at ports on the eastern side of the Great Lakes and the upper St. Lawrence River, and to flour moving for export by rail from any point in Canada east of Thunder Bay. Rates on grain have been frozen at the 1960 level and on flour at the 1966 level.

The United States has broadened its claims of what constitutes an agricultural export subsidy to federal and provincial stabilization programs.¹¹ The pork and swine case set a precedent for the position that domestic support programs aimed at domestic producers can result in export subsidies that injure competitors. If this position is sustained in other trade cases, it suggests that the range of indirect export subsidies can be vastly extended to include domestic producer welfare programs in virtually all agricultural exporting countries.

The EC. The CAP system of restitution payments is, to date, the most comprehensive export subsidy system in effect among major agricultural suppliers. However, EC officials claim that, under GATT rules, the CAP system is exempted from consideration as a subsidy, mainly because of its defined purpose of supporting EC farmer income and its overall adherence to the equitable share principle for agricultural exports.

Export refunds administered under the CAP are designed to bridge the gap between world market prices and the higher internal support price within the EC. The refund or restitution is the same whatever the origin within the EC, but it may differ according to the destination of the shipment. Trader profits may also vary depending upon where the stocks are drawn from, since prices in each member country are not the same. Transportation, exchange rates, and financing costs account for the largest differences in profit margins.

Refunds are fixed at least once a month by the Commission upon the advice of the Management Committee for Cereals. EC officials fol-

low international price movements very closely in an attempt to avoid costly miscalculations on refund levels. "Ordinary" restitutions may be granted for exports of grains and processed products. In the case of wheat, there is a common refund which can apply generally to all third countries. It is calculated by taking account of the strength of competition on the world market, the level of internal prices, and the amount of EC wheat available to the market. Common refunds also can apply to a specified zone or an individual country. In theory, this type of restitution is calculated on the basis of transportation distances to the importing country.

Another option is to have traders bid for the level of refund they determine necessary to conclude a transaction. Under this system, the Management Committee will issue tenders for export refunds open either to all countries, or specific zones and individual countries.

Tenders are usually open for a set quantity, but no limit is placed on the duration of a tender. If the trader holding the refund certificate does not execute the transaction, however, he must surrender the restitution certificate and sacrifice his deposit.

Although the system has a number of built-in safeguards to protect public interests and reduce the costs of this type of subsidy program, there are loopholes which provide opportunities for additional commercial profit. There are also almost as many exceptions as there are rules for the system. Although EC officials will explain differences in refund levels between zones as mainly a question of freight distance differentials, political and other considerations also play a major role. Member countries are allowed considerable leeway in terms of zones, refund levels, and commodities selected.

In the case of grains, wheat in particular, France was the largest beneficiary of the EC's export subsidies. In 1984, export subsidies for French grains amounted to \$306 million, representing an average of \$27 for every ton of French wheat exported, or 19 percent of the total value of France's wheat shipments during 1984.¹²

New Zealand. Two programs are in effect, but are scheduled for phasing out by 1987 –

the Export Program Suspensory Loan (EPSL) and the Export Performance Taxation Incentive (EPIT). EPSL is a short-term loan for exporters. The loan, representing a maximum of 40 percent of the exporter's cost up to a ceiling level of NZ \$200 million, can be converted to a subsidy on a given export sale. Otherwise, the loan is repayable.

EPIT consists of a tax credit which is deducted from the standard export tax applicable to all exporters. This fiscal program is the principal export subsidy available in New Zealand for processed meat exports. The subsidy works off the base figure of 7.7 percent of the FOB value of the product exported. For 1985-86, the subsidy is 50 percent of the earlier amount and will be reduced another 25 percent before its termination in 1987.

There is also an Export Market Development Taxation Incentive program which represents tax savings identified with private sector market development activities. The standard tax credit for this type of expenditure is 67.5 percent of the total. For fruit and dairy products, the government had concession export financing which is now being phased out. The remaining subsidies in these commodities are mainly domestic programs like stabilization plans or special credit financing for production inputs. The United States has drawn attention to these programs, but has not yet applied the same claim regarding their subsidy effects as in the Canadian pork and swine case.

Thailand. Government stocks purchased at target prices above the market price under the procurement program reenter the export market at or below the existing international price. The margin between the target and the export price is what constitutes an export subsidy. Additional subsidies are available in the form of local export financing, duty drawbacks and exemptions for exporters, and deductions of taxable income for identifiable foreign marketing expenses. All such measures are standard means of export promotion, derived at some cost for expensive producer countries. Thailand, on the other hand, is a competitive producer which has successfully fashioned an aggressive export program that challenges the U.S. market share.

Export Credit Programs

The countries and practices described below are not intended to serve as an exhaustive catalogue of prevalent export credit activities.

Further description of foreign export credit programs by countries other than those listed below is contained in the section of this report entitled "Aggressive Action to Meet and Counteract the Effects of Unfair Foreign Trade Practices."

Argentina. Given Argentina's economic constraints, special credit programs come at considerable cost to an inflation-ridden economy. Moreover, Argentina's domestic production and marketing system are sufficiently competitive to reduce the need for government credits for export financing. Whenever credit lines are opened, they are available almost exclusively to other Latin American countries at a standard rate of 9 percent. Usually such credit packages are politically motivated with little assessment of their effects on export promotion or market development.

Australia. The AWB has extended credit for up to three years on wheat with terms similar to the U.S. blended credit program. The government also provides export credit insurance to the Board through the Export Finance and Insurance Corporation (EFIC). EFIC operates on a commercial basis, requiring the Board to pay insurance premiums and assume partial liability for any losses.

There does appear to be an increasing use of credit options for export financing used by the Board. Customarily, AWB did not extend credit in excess of 180 days on any commodity other than wheat, and then only for special buyers like China and Egypt under terms referred to as extended payment periods. With the downturn in commodity markets, the Board has undoubtedly made wider use of its own credit lines to assist in financing export transactions. In addition, as Australia's largest short-term money borrower, the Board can assist in obtaining other government and commercial financing on extremely favorable terms or issue its own commercial paper as collateral for credit assistance to foreign buyers.

Characteristic of the Board's flexibility, it now offers a credit window of its own, along with

indirect credits from public and private banking institutions. Traders working closely with the Board have indicated that the AWB will do whatever it takes to close a deal. Generally, this has entailed more packaging discounts and indirect subsidies than credit financing. The trade also reports that Australians have provided interest-rate rebates on letters of credit and/or discounts on such export instruments.

Canada. Credit financing is not new to Canada, and has been a standard practice of the Canadian Wheat Board since 1952. The Board has a line of credit with Canadian banks, guaranteed by the Canadian government on terms of up to three years. The rate is often 1/4 percent below the most favored customer rate, generally with a minimum down payment provision of 10 percent.

For eastern and other non-Board grains, exporters may obtain credit guarantees for a maximum of three years through the Export Development Corporation (EDC). The Canadian Government recently has expanded EDC programs for short and medium-term (up to three years) credit insurance in agriculture. The bulk agricultural credits insurance program offers insurance for a maximum of 360 days, and is available to 90 approved countries at present. Coverage includes 100 percent political and 90 percent commercial risk for the following commodities: non-Board grains, oilseeds, vegetables, forages, horticulture, dairy, red meat, poultry, and eggs.

EDC has also instituted a medium-term program of up to three years for all the above-mentioned commodities plus pulses, tobacco, animal products, and genetic materials. The credit is for exporters dealing directly with government agencies and must be justified in terms of the need to match competitor terms. EDC officials state that their program provides greater coverage to exporters but at higher premiums than the Commodity Credit Corporation's GSM-102. The budget allocation in calendar year 1986 for EDC agricultural programs is (Canadian) \$600 million.

These initiatives on the part of the Canadian government suggest a recognized need for credit financing to promote exports and maintain traditional market shares. Recently, Canada is reported to have reopened a credit line for \$1

billion to the Soviet Union which had not been used since 1982-83. Because of the depreciated Canadian dollar against the U.S. dollar, credit assistance had not been as necessary to big buyers like the Soviets during the last two years. However, with currency realignments and reduced interest rates in the United States, the borrowing option becomes much more attractive to large-scale commercial buyers. The Board, like its counterpart in Australia, has demonstrated the requisite flexibility in offering attractive terms to attract or retain commercial buyers.

The EC. Because the EC does not have a common financing policy equivalent to the CAP, export credits remain in the hands of individual member countries. Although separately administered, certain concessional programs constitute an export subsidy over and above the export restitutions managed by the Commission of the EC.

France, as the EC's largest exporter of grains, makes extensive use of export credits to promote sales of French-origin agricultural commodities. The French government has the equivalent of the U.S. Export-Import Bank (Banque Francaise du Commerce Exterieur) and a number of commercial and cooperative financial institutions which provide financing and services for agricultural exports. At the same time, COFACE (Compagnie Francaise d'Assurance pour le Commerce Esterieur) plays an important role in arranging and guaranteeing credit packages for foreign buyers of French agricultural products.

Multinational trading companies have a great deal of respect for COFACE because of the responsiveness of the institution to commercial requirements. Although a public company, it operates on commercial standards with strict rules of confidentiality regarding individual transactions. COFACE has a broader mandate than analogous credit facilities run by the CCC. As a result, it has the reputation of spearheading credit packages which are extremely attractive to importers. Its published terms resemble those of GSM-102, offering credit insurance for 85 percent of a transaction for private buyers and 90 percent for governments. In fiscal year 1983, 10.5 percent of its export guarantees were for agricultural goods. Aside from standard in-

surance options, COFACE offers "market potential" insurance where exporters are insured for sales not realized if costs were incurred in prospecting a potential market. It also underwrites feasibility study work which precedes investment and management contracts for technical assistance projects in this sector where French companies are extremely active. Still another program which it offers is "exhibitor" insurance to cover the costs of participating in international trade shows outside the EC.

COFACE rates vary with each individual transaction, according to trade representatives whose firms have participated in the program. The published standard rate is between .4 percent and .5 percent per annum. During the last two years when the guarantees applied to French commodity sales were denominated in the depreciated French franc, even COFACE public terms were extremely attractive to commercial buyers. In the case of Egypt, for example, COFACE guaranteed a credit agreement for about \$300 million for the purchase of French agricultural products over the following three years. Tempted by large EC subsidies at approximately \$65 per metric ton, Egypt bought approximately 700,000 mt of wheat flour. From January 1985 to the present, France has sold to the government of Morocco over 850,000 mt of French-origin wheat. A breakdown of a recent transaction involving COFACE participation reveals the competitive differentials in favor of COFACE over GSM-102.

The Federal Republic of Germany offers a comprehensive credit/insurance program which is also effective in promoting West German exports. The government's role in supporting export credits is limited: Ausfuhrkredit GmbH, a consortium of all-German commercial banks, has a special rediscount line from the central bank, the Bundesbank. Two private companies — Hermes Kreditversicherungs AG and Treuarbeit AG — administer the government's insurance program. Basic terms are similar to COFACE and GSM-102, but again the range of programs offered is more comprehensive than CCC credit programs.

New Zealand. New Zealand used to have generous credit packages for promotion of dairy exports in Asian markets. The country was attempting to secure market access after

having experienced a loss in its guaranteed British market after the UK joined the EC. Some of the early deals turned sour and the Milk Board and government have pared back their credit packages which are now mainly confined to new markets in developing countries.

Thailand. The Bank of Thailand provides rediscount facilities through commercial banks for promissory notes offered by the Bank to credit worthy exporters of eligible agricultural commodities. The rediscount rate varies by the commodity covered and the type of documentation supporting the promissory note. Rates vary between 40-70 percent of the face value of the document. According to the U.S. rice industry, this rediscount facility translates into considerable reductions in export prices. Tapioca, canned foods, corn, seafood, and sugar together with rice accounted for 63 percent of the agricultural items covered by the Bank of Thailand's rediscount window. Since there are extensive controls on the Baht, Thailand's national currency, this type of indirect credit assistance is particularly effective. Premiums are placed on foreign currency earnings, making national credit assistance such as that offered by the Bank of Thailand less costly than would be the case for a country with an international currency.

Countertrade/Offset

The countries and practices described below are not intended to serve as an exhaustive catalogue of prevalent countertrade/offset activities. For example, while not specifically cited herein, it is assumed that virtually all non-market or mixed economy countries such as China and those in Eastern Europe engage in countertrade arrangements to promote agricultural exports. This type of transaction is inherent to their agricultural marketing system. However, the practices of such countries are not included in this section due to lack of reliable information.

Reciprocal agreements are included in this section although they are not technically countertrade transactions. Under these contracts, buyers and sellers agree to import or export fixed portions of their total transaction. However, the reciprocal obligation does not involve an exchange of goods or services. Each trans-

action is handled separately under conventional commercial terms.

The term "offset", as used in this text is defined as a contractual commitment imposed as a condition of purchase by the importer on the exporter with the intent of creating prerequisite benefits for the former. Offset may be direct (including production of all or part of the item procured by buyer) and/or indirect (benefits that are unrelated to the item being procured – e.g., project investment, technology transfer, and countertrade).

Further information on countertrade/offset practices of countries other than those listed below is contained in the section of this report titled "Aggressive Action to Meet and Counteract the Effects of Unfair Foreign Trade Practices."

Argentina. Argentina's policy on countertrade is ambiguous. There is some incentive to provide government assistance for this type of transaction with trading partners which suffer from foreign currency deficits. On the other hand, Argentina faces similar constraints and is, therefore, subject to pressures from the international financial community to conduct an open economy, which argues against an over-involvement in barter transactions.

Nonetheless, Argentina has established a limited number of countertrade arrangements in the form of clearing accounts within ALADI (Latin American Integration Association, which includes as its members Argentina, Brazil, Bolivia, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela) and with the Soviet Union in the form of an understanding under the newly signed bilateral grain agreement. In the latter case, Argentina has entered into a reciprocal agreement with the Soviet Union involving purchases and project financing. Examples of classic barter transactions which Argentina has undertaken include a wheat-for-rice barter deal with Iraq in 1982, iron ore for wheat, sorghum, and corn with Venezuela in 1976, and copper for wheat, corn, beef, and offal with Peru in 1976-78.

Respecting ALADI arrangements, the trade has reported instances where clearing accounts have tended to favor Argentine sales. A most recent case was when Brazil switched out of a

purchase of U.S. HRW (hard red winter wheat) to ARG (Argentine/Trigo Pan bread wheat) which the trade attributed to the clearing account incentive. Notwithstanding this incentive, Brazil switched back to U.S.-origin wheat, ostensibly because of drought conditions followed by flooding in Argentina. Under the circumstances, it is difficult to make any conclusive assessment of the clearing account system.

Australia. The Australian government has instituted or required offset agreements on all military and civilian procurement where the government is involved. The main agricultural products which qualify for fulfillment of offset obligations on the part of the military manufacturer are processed food-stuffs, fish, wool, livestock, wheat, fruits, and sugarcane.

In countertrade, the AWB has license to engage in various innovative transactions. It can undertake tripartite barter arrangements and contracts for combination cargoes to be sold and shipped. No assessment of the success of these transactions can be made other than to note that the Board is able to make use of this option whenever necessary. Because of its close working relationship with the trade, these types of transactions can be negotiated with the companies so as to channel as much handling as possible of the actual transaction to the private sector.

Brazil. Although without any formalized program, Brazil frequently engages in countertrade agreements, particularly with non-market economy and ALADI countries. CACEX, Banco do Brazil's trade control office, maintains that less than 5 percent of the country's external trade is conducted through countertrade activities. CACEX has, nonetheless, approved of barter deals undertaken by Intebras, the state oil company's official trading arm (Petrobras), and by other private firms requiring special financing. Most of Brazil's food products have been included in these transactions.

CACEX has created a separate countertrade division to coordinate offset transactions for technology transfer, military acquisitions, and petroleum imports. Offset agreements are still relatively new to Brazil, but have been introduced recently in a space satellite contract with Hughes Aircraft. The contract stipulates obliga-

tions on the part of the manufacturer for purchases of Brazilian products including agricultural commodities.

The EC. As in the case of export subsidies, the Community lacks an effective common industrial and trading policy. Accordingly, individual countries initiate their own policies and **most European countries, particularly the Federal Republic of Germany and France, are accustomed to countertrade transactions.** Officially, however, they spurn the use of countertrade as an incentive for agricultural exports.

New Zealand. The New Zealand government is not averse to engaging in countertrade transactions. The Milk Board recently signed a butter-for-oil barter deal with Iran, and another 3,200 tons of butter went to the Soviet Union in 1985 with the implicit assumption of reciprocal obligations of the part of New Zealand in the form of counter-purchases from the USSR. The Soviets are trying to invoke the same type of barter arrangements in New Zealand that they have introduced into their agreement with Argentina.

Proposals for offset domestic manufacturing and transfers of technology to New Zealand's industry are given preference, especially when they relate to the development of primary processing in industries such as forestry, fishing, and horticulture. Counter-purchases of horticultural products and exports of fish and derived products are encouraged, particularly when they open new markets. The amount of the tender contract to be offset is decided by the tenderer.

Preferential Trade/Bilateral Agreements

Because virtually all agricultural suppliers, including the United States, are writing bilateral and preferential agreements, there is no meaningful distinction to be made in this regard. It is important to note that under current market conditions where surpluses exist for most commodities, the effects on trade are minimal. Price agreements usually do not figure into bilaterals since it is neither to the advantage of the buyer or seller at present. Therefore, the price effects would only play a role if the effect were to tighten supply availabilities. Since these agreements in general only pertain to purchase and supply commitments, the impact at this time is

confined to some redirection of trade flows. None of this realignment, however, need occur at the expense of a competitor whether or not that country engages actively in bilateral supply contracts.

Market Development/Promotion

The countries and practices described below are not intended to serve as an exhaustive catalogue of market development/promotion activities. As used in this text, the term "market promotion" is defined as trade service related activities, the main purpose of which is to encourage export sales over the short term. Market development is defined as technical assistance related services aimed at generating demand for agricultural commodities and products over the long-term.

Trade services are defined as assistance directly tied to procurement, handling, and distribution of agricultural products. Technical assistance pertains to those services for particular projects. U.S. technical assistance in this area tends to be less project-specific and more oriented to long-term demand generation or generic product promotion.

Further description of market development/promotion programs engaged in by countries other than those listed below is contained in the section of this report titled "Aggressive Action to Meet and Counteract the Effects of Unfair Foreign Trade Practices."

Australia. Australia is very market-oriented, given the reliance of its economy on agricultural exports. Each principal commodity has a market development organization to handle promotion and development activities. Funding sources are derived mainly from producer levies and supplementary government grants.

For example, the AWB is particularly aggressive in its trade and technical assistance related services. Private traders point to the Board as the most aggressive marketing institution of its kind and the most effective, measured in terms of promoting exports. They note that the Board favors working closely with the private sector, including businessmen on high level trade missions, enlisting their advice and support, and cooperating closely to construct deals favorable to importers as well as the private

trade. It does take certain liberties which could pose legal difficulties in the United States. It is not constrained from assigning an individual company the responsibility for handling a simple export contract without any open bidding process.

By most reports, the Board has an outstanding reputation in selling its product abroad. It places an extraordinary emphasis on goodwill and the development of brand image for Australian wheat. The Board also follows markets closely through constant staff intelligence missions and direct office representation around the world. As a public institution, it can afford to adhere to a long-term strategy and rely on trading houses in assisting AWB to conclude large spot sales.

Other commodity corporations have a comparable reputation in promotion and development. In each case, there is also strong institutional back-up and financial assistance from the government. The respective budgets for the different commodities represent a greater proportion of total export values than is true for the United States.

Canada. Marketing programs are conducted by the government, Crown corporations, commodity associations, and provincial governments. The organizations and provinces tend to compete against one another in their promotion and development work, but the net result is still positive in terms of encouraging agricultural exports.

Trade sources indicate that the Canadian Wheat Board's reputation in this regard has waned to some extent by comparison to AWB. Reportedly, CWB is more bureaucratic and less innovative in its approach to marketing. Nonetheless, its staff mission work and foreign intelligence retains an outstanding reputation. The fact that the Board works closely with the private sector has also proved useful in securing market access and generating demand for Canadian products.

The Canadian Grains Institute, the technical assistance arm of the CWB, also plays an important role in market development. Its technical courses for mid-level government and private sector representatives from developing countries, or countries with identifiable market poten-

tial, have proven most successful. The Institute also offers a sophisticated program to introduce new end-uses and new technologies for the handling and processing of Canadian wheat.

Institute activities command a long-term loyalty from their alumnae who now form a leadership network all over the world.

The EC. Commercial policy also is a responsibility retained by member states. As a result, **each EC member country operates its own promotion and development program.** Given the long history of European countries in trade activities, there is virtually nothing these countries have not tried and developed to a high level of sophistication. The operating premise which applies to all member states is that government organizations exist to service private sector requirements and support national political objectives. **In all cases, these countries' budgetary commitments to promotion and market development exceed levels provided by the United States measured in terms of the percentage of total export values.**

Generally, the larger agricultural producing countries place more emphasis on overseas markets than within the EC. This allocation may change with the new membership of Spain and Portugal in the EC. As the Community expands, the potential for demand within the member countries is that much greater. Since European markets are highly developed in many respects, government agencies and companies draw from their European experience in penetrating the U.S. market. Similarly, the less sophisticated markets of Western Europe serve as a bridgehead for the development of new sales techniques in developing countries.

New Zealand. Recently, the New Zealand government and private sector have worked aggressively in the area of market expansion and product sophistication. In general, the targeted countries for its programs are such highly developed markets as the United States and Western Europe. Kiwi fruit is a stunning example of how new marketing techniques developed by the private sector, in conjunction with strong financial backing and institutional support from the government, can lead to significant market penetration.

New products, new packaging, high-quality

standards, better handling facilities and transportation, and the development of a network of distributorships characterize New Zealand's strategy. Unlike large producers of basic commodities, New Zealand has placed more emphasis on promotion and development of value-added products through producer marketing organizations. If measured in terms of demand, New Zealand's investment in market promotion and development of new products has been extremely successful.

THIRD-WORLD COUNTRY POLICIES

During the 1970s, the developing countries were widely touted as being the best potential growth market for U.S. agricultural commodities. And the numbers seemed to bear out this belief: between 1970 and 1981, American farm exports to the developing countries of Africa, Asia, and Latin America rose from \$2.2 billion to \$16.9 billion.

Several factors in the last decade have worked in favor of this trend. The 1973 explosion in oil prices meant that private international banks, flush with the deposits of OPEC nations, suddenly had an extraordinary amount of money to lend. The recycling of so called petrodollars was accomplished primarily through private lending to third-world countries – especially to the governments of those countries. Even though non-oil producing nations were hard hit by the steeper energy costs and ensuing inflation, the large, steady source of credit enabled them to accelerate their economic development.

One of the truisms of economic development theory holds that increased income leads to increased demand for an improved diet – one that is both more diverse and more nutritious. In the 1960s and 1970s, income growth in the developing world outstripped increases in agricultural production; that the surplus demand had to be met through importing agricultural products. Because middle-income developing countries are especially eager to increase meat consumption, livestock feed exports to those nations took off.

Unfortunately for both the developing countries and the American farmer, this export drive ground to a sudden halt and even

reversed itself during the recession of the early 1980s. Developing countries could no longer afford to import as much food, feed, and other goods. The enormous debt loads carried by developing countries, financed at ever-shorter maturities and at higher real interest rates, seemed intractable, and many feared that some countries would repudiate their debts.

In some cases, the International Monetary Fund (IMF) intervened with specific conditions when balance of payments financing for a debtor nation was required. IMF economic austerity measures variously required that the borrowing country reduce its domestic spending, increase its exports, and/or cut back on imports.

The last requirement had obvious implications for U.S. agriculture. But so, too, did the injunction to increase exports. Some developing countries, realizing that the strong dollar and high U.S. loan rates provided them with a price umbrella, responded eagerly and brought new acreage under cultivation. This move intensified already stiff world trade competition in farm goods.

Not all developing countries, of course, have had the luxury of being able to step up their agricultural production. In the past 25 years, food production actually declined in much of sub-Saharan Africa. Because of drought and other reasons, these countries have continued to experience poor harvests; at the same time, these countries have had a high birth rate. This situation has led to food emergencies, the most recent of which occurred in the early 1980s.

For humanitarian, economic, and political reasons, it is in the national interest of the United States to assist third-world countries along the path of economic development. This will require a coordinated effort including private and multilateral financial assistance, commercial credit, food aid, and political support.

POLICIES OF CENTRALLY-PLANNED ECONOMIES

American competitiveness in world agricultural markets is also affected by decisions of

other countries to buy and sell the principal traded commodities. In the past 15 years, the Communist bloc has become a significant factor in farm trade; because the economic decisions of these countries are made by their governments, rather than by individuals and firms, their purchasing patterns can shift rather suddenly – for political as well as commercial reasons.

One of the most important decisions in the past two decades for American agriculture – especially for exports – took place not in Kansas, Iowa, or Washington, D.C., but in Moscow. In the early 1970s, the Russian leadership decided to make a concerted effort to upgrade the diet of its citizens through increasing meat consumption. In conjunction with that policy, the Soviets elected to begin purchasing grain from the United States.

The results of this decision are familiar to anyone acquainted with the recent history of American agriculture: U.S. wheat and feed grains exports, prices, profits, and plantings all soared.

The entry of the Soviet Union into the world agricultural commodity markets has proved to be a mixed blessing. Because the U.S.S.R. sometimes purchased enormous amounts of grain, the U.S. agricultural plant geared up to accommodate larger demand. And because the size of Russian purchases varied widely from one year to the next, Soviet buying tended to have a destabilizing effect on world markets. Finally, the 1980 Soviet grain embargo demonstrated that any interruption – however temporary – of trade with this newfound partner would have serious consequences for American farming.

Following the Soviet lead, the Eastern bloc satellite countries likewise began to purchase from the United States. And although traders initially welcomed their entry into the market, it was soon apparent that trade with Eastern Europe conveyed certain problems as well. Because their country possesses vast stores of natural resources – particularly oil and gold – the Soviets could afford to pay hard currency for their grain imports. However, the Eastern European countries had to rely upon credit for their purchases. And, like other developing countries, this group was hard hit by the debt crisis

and the world recession. In an effort to balance their trade account through reduced imports, countries such as Hungary began to partially withdraw from the market.

To repeat: although often profitable for the West, trade with socialist bloc countries can convey certain hazards. The decisions of the Soviet Union and its satellites to buy and sell American grain frequently seem to be motivated as much by political as by commercial reasons. In addition, the inefficiencies inherent in a command economy can lead to disruptive trading patterns; in a relatively short period, such countries can lurch from surplus to shortage in some sectors of their economies.

In the past two decades, for example, the Soviet Union has gone from being a net exporter to being a net importer of wheat. Their harvests are subject to wide variation, and their grain imports vary accordingly. In the aftermath of the partial embargo of U.S. grain sales to the Soviet Union in 1980, the Soviets turned to Argentina and other grain suppliers in an effort to diversify their sources of wheat and corn.

However, the lifting of the embargo in 1981 and the signing of a new long-term grain agreement in 1983 did not put U.S.-Soviet trade back on an even keel: citing their ineligibility for the U.S. Export Enhancement Program (EEP), the Russians reneged on the terms of the agreement in 1985, and intimated that they might do so again in 1986. President Reagan's temporary, across-the-board extension of EEP in the late summer of that year generally pleased the U.S. agricultural community, but raised a hue and cry over U.S. foreign policy objectives. Many objected to the idea of the American taxpayer subsidizing food and feed for the Russians. As of this writing, the political reaction has yet to be determined.

INDUSTRY-RELATED FACTORS

Quality-Issues

In the last two years, the agricultural community has experienced a sharp controversy over the export quality of American grain. The debate finds some commodity organizations, members of Congress, and importers lined up on one side, with grain traders and handlers on the other.

Official buyer complaints to the Federal Grain Inspection Service (FGIS) rose last year, and a good deal of largely anecdotal evidence would seem to suggest a deterioration in the quality of grain being shipped by the United States. Grain quality has been the subject of numerous reports in the media, and has been on the agenda of discussion at farm group conventions.

Essentially, the issue breaks down into an argument over whether higher prices, lower quality, or a mixture of both are to blame for sagging exports of U.S. farm products. Proponents of grain quality legislation argue that foreign buyers are turning to other producing nations because of the poor quality of U.S. grain. They contend that excessive dockage, foreign material, and moisture are ruining the U.S. image as a reputable supplier. They particularly object to the practice of blending. Grain warehouses, they claim, often begin with clean grain and then add dust, inferior grain, and/or nongrain material in order either to bring the grain down to the next grade level, or just to stay within admissible standards.

They also object to the manner in which dockage is certified. According to official U.S. grain standards, dockage may be rounded down to the nearest .49 percent. Although this may not sound like much, it becomes a significant figure when one reckons with major grain shipments. For example, the inspection certificate for a 1 million bushel shipment can legally show zero percent dockage, when in fact 4,900 bushels of dockage are present.

Representatives of the U.S. grain trade contend that the whole debate is fueled by the question of price. Because the value of the dollar and high loan rates have raised the price of U.S. grain to foreign buyers, importers are more likely to use quality as a bargaining chip in order to obtain a more favorable price, they argue. Cleaner grain is more expensive grain, and someone has to pay the price.

Some traders admit that there may have been a marginal increase in dockage and foreign material in the past few years, but they assert that this is solely due to the introduction of more advanced equipment and technology, which allow grain to be loaded closer to specifications.

The quality of U.S. export grain – measured according to official standards – has not deteriorated, representatives of the grain trade maintain. As evidence, they cite a 1984 study by FGIS, which found that the quality of U.S. grain generally stood up to official standards. In addition, they note that those shipments about which complaints are made represent less than 5 percent of the volume of total U.S. grain exports.

A recently issued report by the General Accounting Office (GAO), however, implies that such arguments may miss the point. First of all, because of the U.S. dockage rounding procedure explained above, some buyers may still wind up paying for a considerable amount of nongrain material. Secondly, "foreign buyers often did not report their complaints to USDA because USDA can do nothing to help them resolve disputes with U.S. exporters."¹³

During work on the 1985 Farm Bill, several members of Congress offered proposals intended to improve export grain quality. A bill by Rep. Cooper Evans (R-Iowa) was incorporated into the House version of the omnibus bill. The measure would have prohibited the reintroduction of "dockage or foreign material (including but not limited to dust or particles of whatever origin) once removed from grain . . . when there is any possibility that the recombed product may be exported from the United States."

Grain traders objected to the proposal on the grounds that it had been voted upon without having first been subjected to the normal hearing process. Several important points were therefore ignored, they claim. For example, grain is frequently "over-cleaned" at the elevator, and then blended during loading to fit contract specifications. Traders and warehouse personnel claimed that the Evans proposal would force unwarranted changes in commercial practices (i.e., blending) without addressing the real problem of grain standards and grading.

The Evans amendment was deleted during conference committee consideration of the farm bill. Conferees substituted instead a proposal by Sen. Abdnor (R-South Dakota) which calls for a comprehensive study of the grain quality issue by the congressional Office of Technology Assessment by December 1, 1986.

In the meantime, however, the grain quality issue is far from dead. New legislation has been introduced in the House and Senate. Critics of the current system continue to call for changes. Among other changes, they have suggested the following measures:

- reduce the dockage rounding standard from .49 percent to .10 percent;
- provide producers and exporters who deliver clean grain with incentive payments, in cash or commodity;
- require FGIS to perform spot checks of American grain deliveries at overseas ports;
- prohibit blending of grain lots with different moisture contents;
- develop new seed varieties that would more easily withstand breakage during handling;
- revise the Commodity Credit Corporation's premium and discount schedules to reflect higher value of cleaner grain.

Some observers believe that all the talk about quality will die down once agricultural exports pick up again – hopefully in another year or so. Others, however, fear that the quality debate may become something like a self-fulfilling prophecy: the more Americans flagellate themselves over the poor quality of their own grain, this reasoning runs, the more the rest of the world will perceive the U.S. as a supplier of low quality grain, facts notwithstanding.

The grain industry for its part, continued to seek a consensus solution to the issue. In January 1986, the North American Export Grain Association began holding a series of meetings attended by representatives of 40 organizations, including general farm and commodity groups, storage associations, universities, and exporters. In July, the ad hoc group unveiled a list of proposals and recommendations intended to improve the quality of U.S. export grain. The suggestions dealt with dockage rounding, wheat protein measurements, moisture blending, infestation, shipload loading plans, and a host of other issues. Although the group's ideas were well-received by both Congress and the Executive Branch, and are expected to have a significant impact

on U.S. grain standards and inspection procedures, some in the agricultural industry believe even more work needs to be done.

INFRASTRUCTURE - TRANSPORTATION, MARKETING, AND STORAGE

The United States has, arguably, the most well-developed infrastructure of any major agricultural exporter. Its combined ability to store, transport, and market commodities is unsurpassed by any nation.

The capacity to move commodities quickly on short notice means that a nation's agricultural plant can be more responsive to a rapidly changing market. And since many agricultural commodities are highly perishable, the presence of an extensive and efficient internal transportation system also means that crops will suffer less deterioration during transit from buyer to seller.

In fact, the export boom of the 1970s actually led to a surfeit in this area. According to former Undersecretary of Agriculture John Schnittker, "our capacity to transport, load, and unload bulk commodities for export is now approximately 7 billion bushels, an excess of some 1.4 billion bushels over our record export level and about 2.7 billion bushels above our 1983-1984 export prospects."

Although the United States' domestic transportation system is generally responsive and competitive, there are some problems in the area of ocean transportation. One dark cloud ever present on the horizon for agricultural exports has been a maritime industry subsidy program known as cargo preference. Enacted in 1954, the major cargo preference law requires that 50 percent of all U.S. government-sponsored cargoes be shipped on vessels registered in the United States.

Cargo preference is defended by its supporters on national security grounds; they claim that the program is intended to help support the U.S. merchant fleet, thereby assuring that the United States would have sufficient ability to move troops and materiel in time of war. This position, while possibly merited, has been subject to question by the

agricultural community because the cost of maintaining such maritime subsidies has been at the expense of the agricultural community, at least in terms of government funding.

For more than three decades, cargo preference applied only to the P.L. 480 (Food for Peace) program. But then in early 1985, a Federal District Court determined that the program should also apply to the newly-developed Blended Credit program. Shortly after the ruling was announced, then-Secretary of Agriculture John Block suspended the Blended Credit sales of \$536 million worth of wheat products to several Middle East countries. Department officials argued that the application of cargo preference for that transaction alone would have entailed \$40-50 million in additional transportation costs. These additional expenses, they reasoned, would effectively negate the benefit of the credit buy-down. The Blended Credit program remained on ice for the rest of that year.

The December passage of the 1985 Farm Bill brought renewed hope for some members of the agricultural community in the form of a compromise provision on cargo preference hammered out between certain maritime and farm interests. Under the agreement, cargo preference requirements will be gradually increased from 50 percent to 75 percent of all P.L. 480 shipments, with any additional costs above the 50 percent mark being funded by the Department of Transportation. In return, the law specifically exempts USDA export credit programs from cargo preference requirements.

The cargo preference compromise remains controversial. It was adamantly opposed by numerous farm groups and agribusinesses. Many feared that renewed legal efforts to apply cargo preference to agriculture would leave the farm sector in a worse position. These groups contend that the cargo preference program has failed to meet its objective of maintaining a strong merchant fleet and should be eliminated on those grounds alone. They are continuing to press for an exemption from cargo preference or, at a minimum, the transfer of cargo preference funding from the USDA budget to that of the Department of Transportation's Maritime Administration.

In any event, the agreement may already be in jeopardy. The new cargo preference provision contained in the omnibus farm law contains a so-called "snapback" provision, which says that if Congress should fail to appropriate funds sufficient to cover the additional cargo preference costs of P.L. 480, the new arrangement would be void, and agricultural export programs would be once more subject to cargo preference.

The new budgetary limits imposed by the Gramm-Rudman-Hollings deficit reduction law make it highly unlikely that either Congress or the Administration would sign off on the \$48 million in additional cargo preference costs which the Department of Transportation has designated for transfer to the Commodity Credit Corporation. Failing that, cargo preference would once more be applied to blended credit shipments and to the intermediate credit program as well. In addition, some fear that the maritime industry will take further legal actions to have cargo preference extended to the GSM-102 guaranteed credit program and the Export Enhancement Program.

America's agriculture and its shipping industry have both been ravaged by the world recession and the attendant fall in trade in the early part of this decade. The cargo preference question has been especially divisive in this time of severe budgetary constraint. Now more than ever, it is necessary for these two beleaguered industries to seek a fair and lasting solution to this issue.

However, if all agricultural credit and food assistance programs are made subject to cargo preference, as some maritime representatives demand, and if the additional shipping costs are paid out of USDA appropriations, then future U.S. credit packages and food aid will become fewer and smaller, and the competitiveness of American agriculture will suffer accordingly.

CONCLUSION

The above commentary is not intended as an exhaustive discussion of the factors shaping U.S. competitiveness in the current world environment. Other important factors will be dealt with elsewhere in the report. It is clear that macroeconomic and government factors are inescapable conditions determin-

ing competitiveness in the markets of the world. The following data tend to substantiate the argument that U.S. producers remain largely competitive with foreign producers, on the basis of cost of production. In addition, the sheer size and scale of the U.S. agricultural marketing system would appear to operate in favor of the United States. However, such factors as the high value of the dollar, U.S. domestic policy, and unfair foreign competition tend to dilute such advantages. There has been recent progress in terms of the value of the dollar. Price support policies have been recrafted in the 1985 Farm Act to reflect even greater market orientation. Nevertheless, much work still remains to be done if the future of U.S. agriculture is to be safeguarded and competitive in its opportunities for trade.

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2. A recently completed study has challenged traditional U.S. thinking about its agricultural efficiency. Cornell's B.F. Stanton, in a study commissioned by USDA's Economic Research Service, surveyed the latest available data on European and U.S. production expenditures. In the case of wheat, Stanton found that "many West European wheat producers within the Community can and do produce wheat at the same or sometimes lower costs than do United States producers depending, of course, on the prevailing exchange rate." The results for other grains (particularly corn and barley) were similar, if less dramatic. (Production Costs for Cereals in the European Community: Comparisons with the United States, 1977-84. B.F. Stanton. Cornell University Agricultural Experiment Station. A.E. Res. 86-2. Ithaca, New York. March, 1986. p.165.)
These findings, if further substantiated, may have important implications for the next round of GATT negotiations as well as for future EC deliberations on the Common Agricultural Policy (CAP). Stanton's conclusions suggest that the degree of protection provided by the CAP may by now be entirely unnecessary for European farmers.
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subsidy requirements of the EC. A low dollar makes EC internal prices relatively higher as expressed in European currencies, thereby increasing the margin between the EC support price and competitive international export prices.

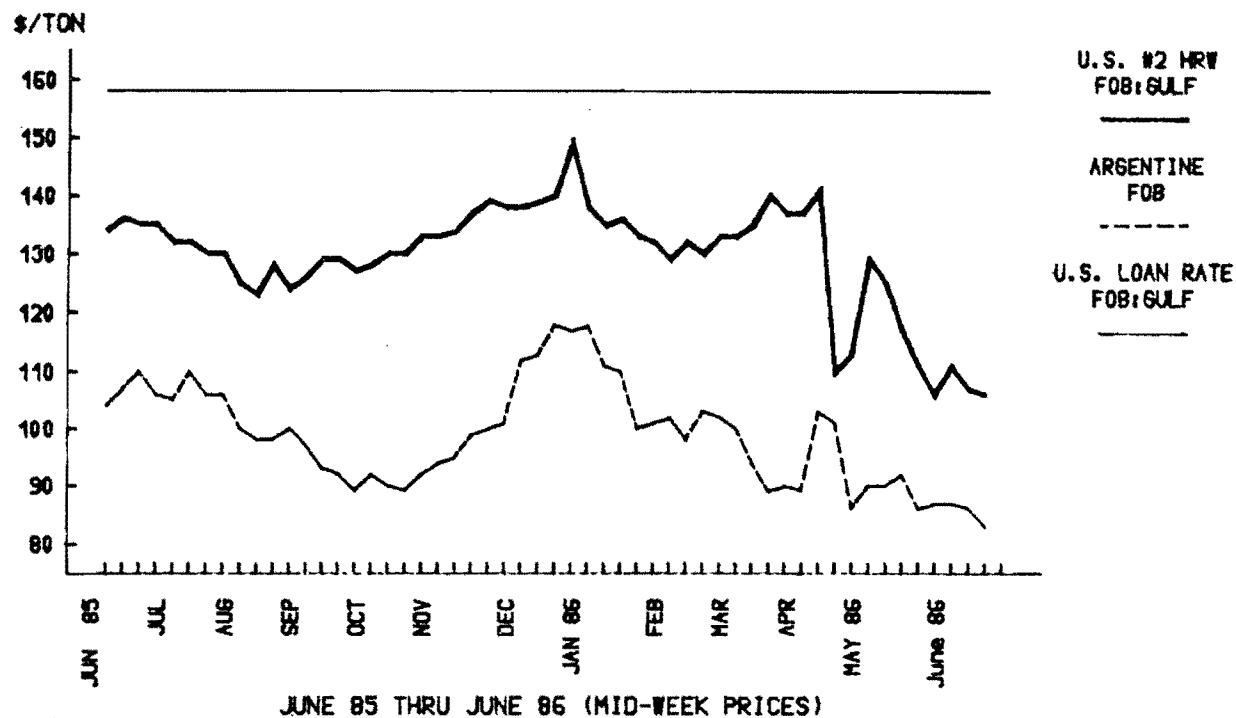
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U.S. Agricultural Competitiveness

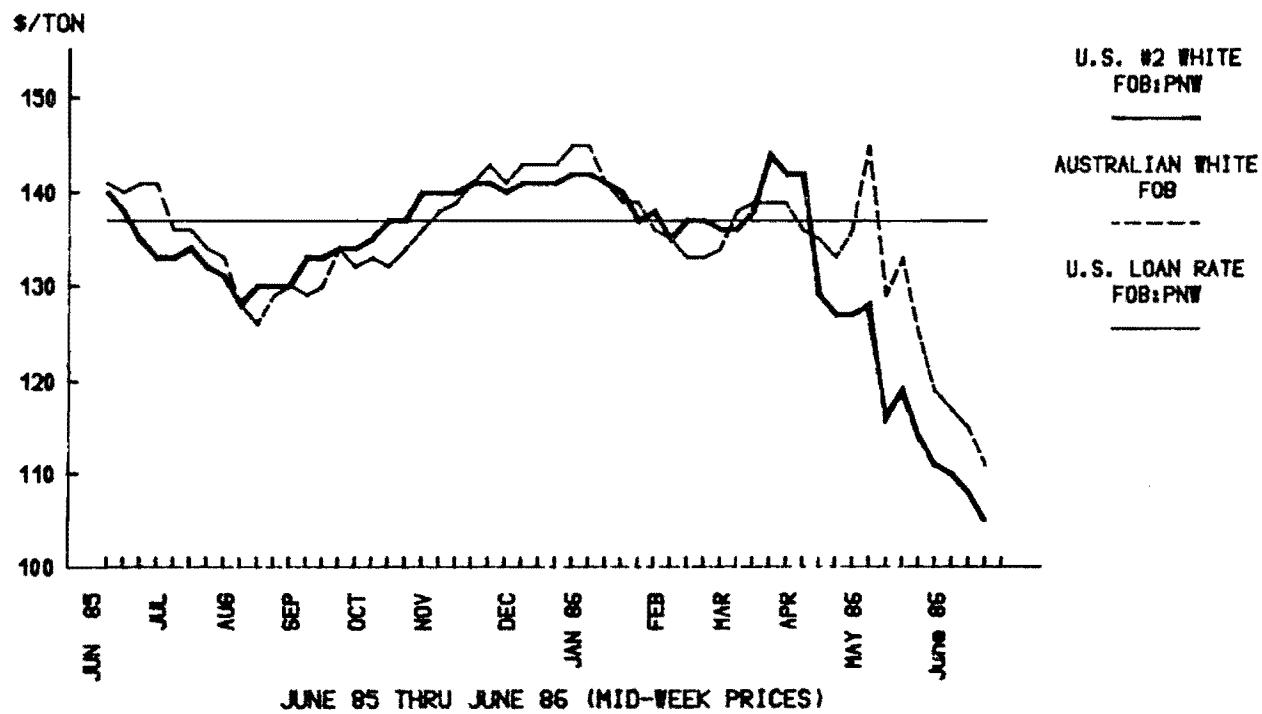
Accompanying
Cost of Production Data

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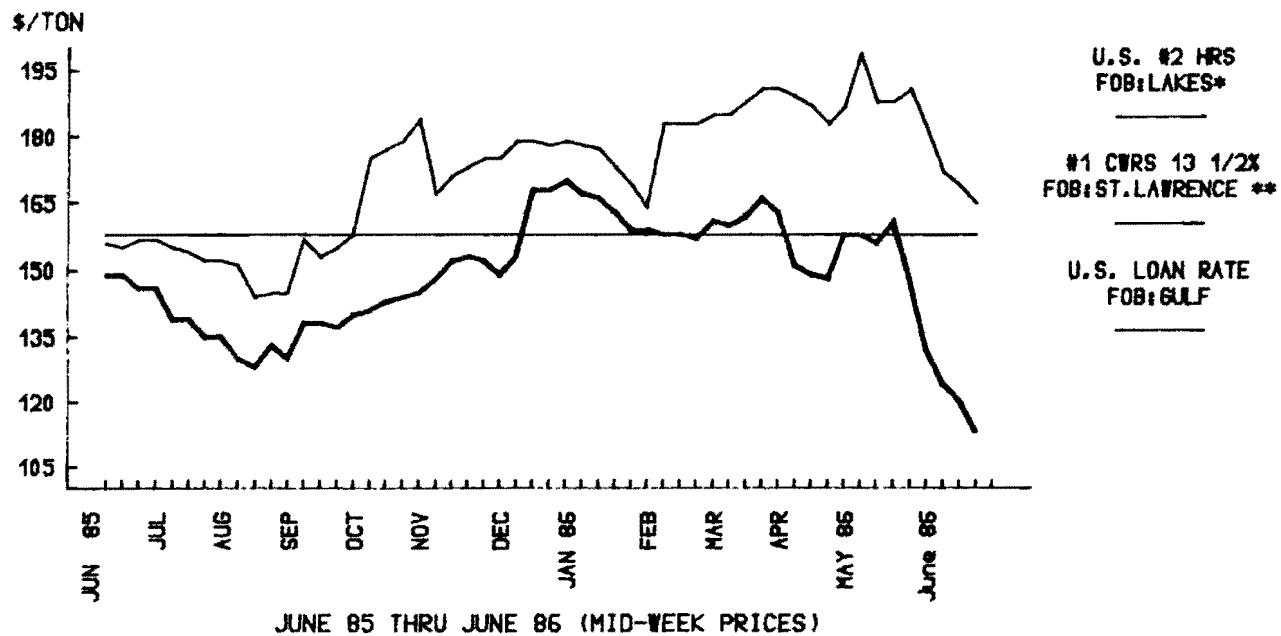
HARD RED WINTER WHEAT EXPORT PRICES
U.S. AND ARGENTINE



WHITE WHEAT EXPORT PRICES
U.S. AND AUSTRALIAN



HARD RED SPRING WHEAT EXPORT PRICES
U.S. AND CANADIAN

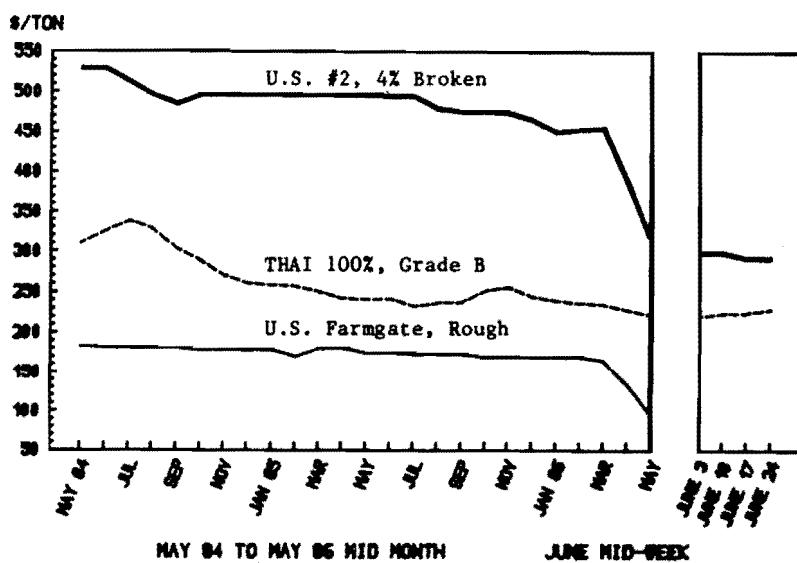


*FOB GULF DURING WINTER MONTHS (DEC THRU MAR)

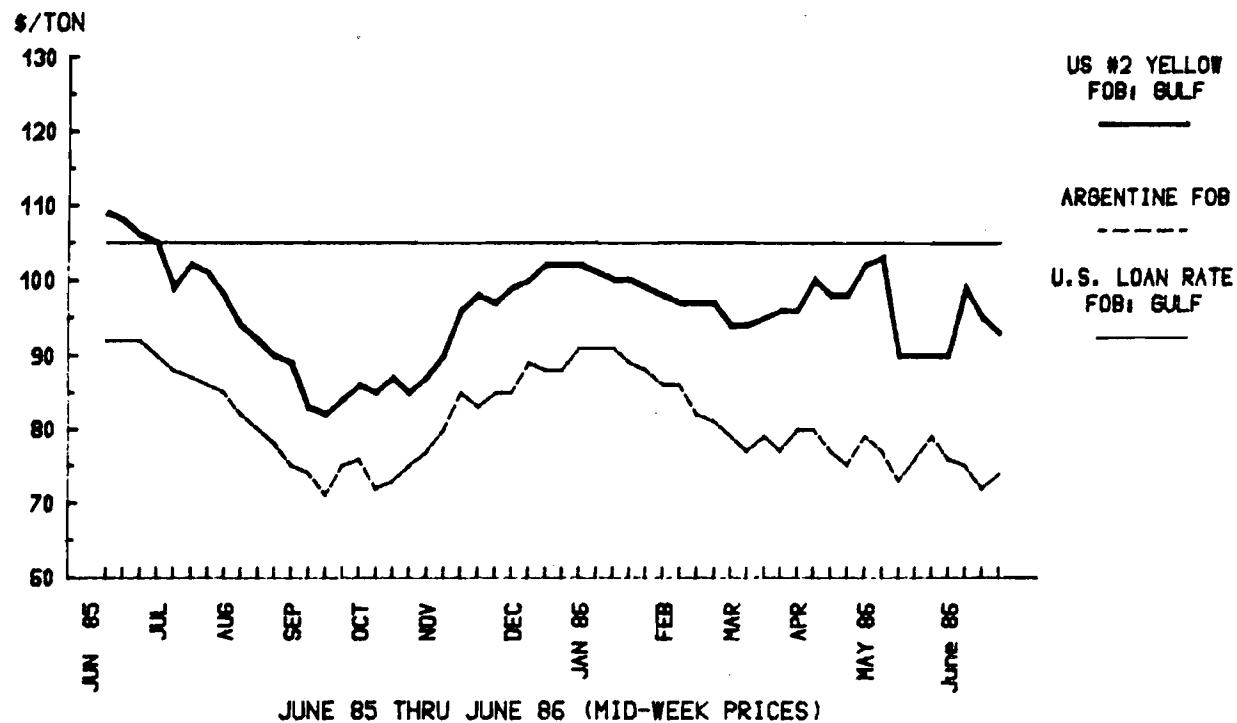
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FOB THUNDER BAY PRIOR TO FEB 1986

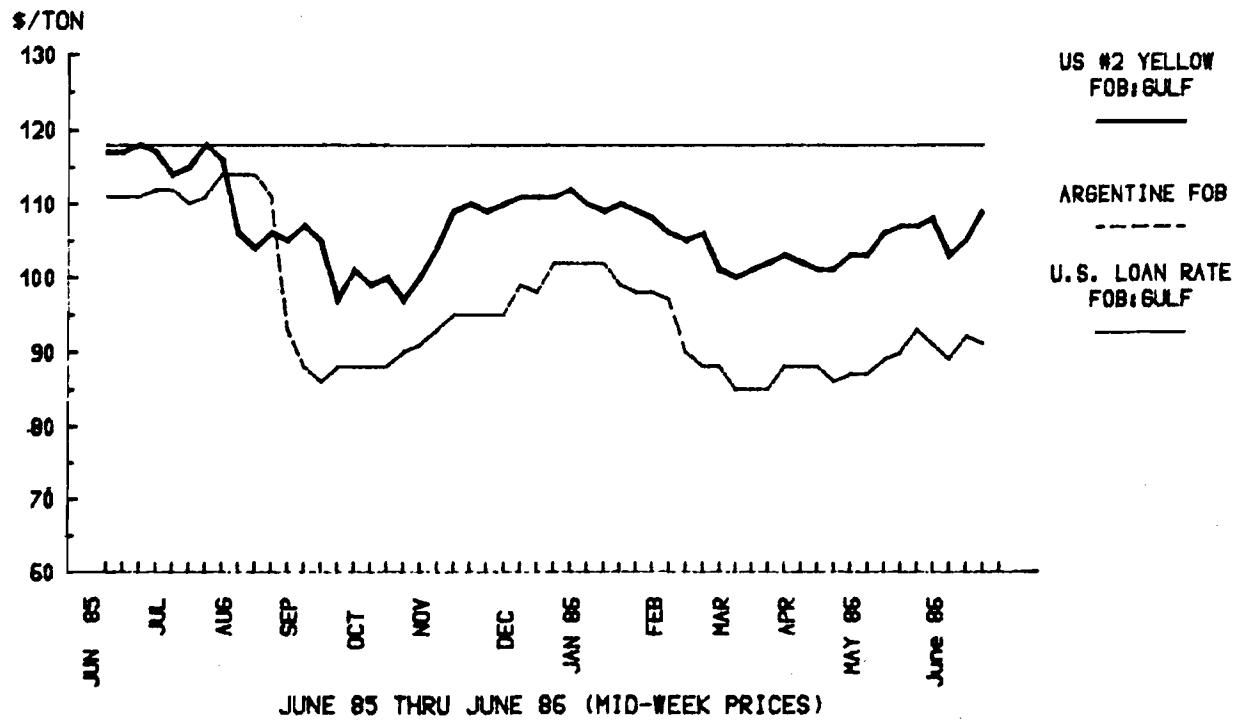
RICE PRICES
US AND THAI (C&F ROTTERDAM) AND US FARM



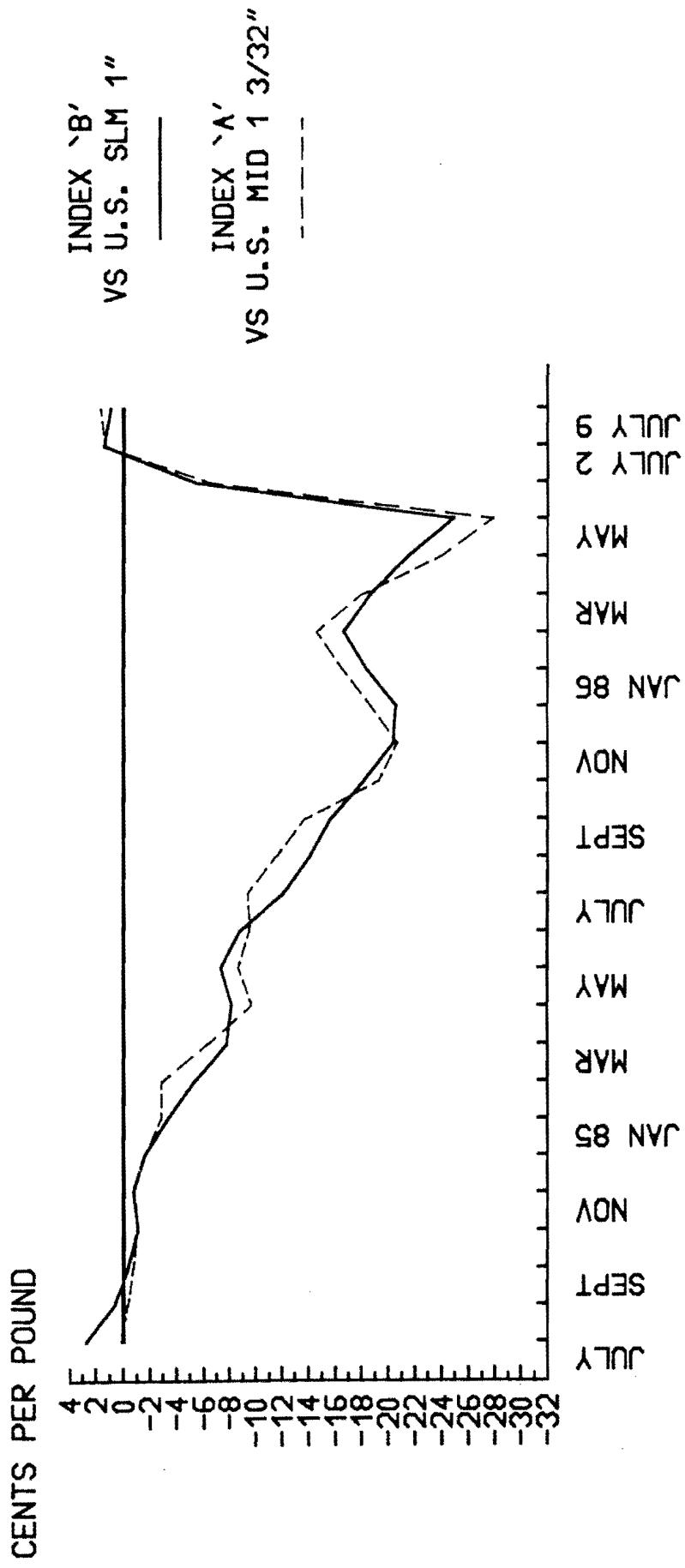
SORGHUM EXPORT PRICES
U.S. AND ARGENTINE



CORN EXPORT PRICES
U.S. AND ARGENTINE



COMPETITIVENESS OF U.S. COTTON PRICES
VS CIF NORTHERN EUROPE INDEX



MARKETING YEARS 1984/85 & 1985/86
PRICES AFTER JUNE 4 REFLECT FOOD SECURITY ACT
OF 1985'S U.S. QUALITY FOR SHIPMENT DURING
SEPT/OCT 1986.

Comparative 1978-1982 Cash Costs of Production

Country	Wheat			Corn			Soybeans		
	Average	High	Low	Average	High	Low	Average	High	Low
\$/bu.									
United States	\$1.73	2.09	1.24	\$1.27	1.50	0.98	\$2.38	2.75	1.93
Argentina	\$1.36	1.60	1.07	\$0.80	1.01	0.62	\$1.91	2.31	1.30
Canada	\$1.18	1.31	1.08	--	--	--	--	--	--
Australia	\$1.70	2.45	1.13	--	--	--	--	--	--
Brazil	--	--	--	--	--	--	\$2.13	2.59	1.66
France	\$3.79	4.29	3.26	--	--	--	--	--	--

Comparative Variable Costs of Producing Wheat and Exports in Selected Countries

I. 1978-1982 Costs and Export Volumes

	U.S. 1/	Argentina 2/	Canada 3/	Australia 4/	France 5/
Range	Average	Range	Average	Range	Average
U.S. \$/acre	\$21-41	\$32	\$30-59 (\$39-59)	\$43 \$22-31 (\$50)	\$21-47
U.S. \$/bushel:	\$72-1.54	\$1.07	\$82-1.60 (\$1.07-1.60)	\$1.17 \$1.08-1.31 (\$1.36)	\$1.12 \$1.13-2.45
Export volume: (mil. m.ton):	41	5	5	17	11
	136	12	12	13	13
1978-1982 Costs Adjusted for exchange rate changes and 1984-1985 export volumes					
U.S. \$/bushel:	\$1.07		\$1.06		\$1.15
Export volume: (mil. m.ton):	34	8	20	15	17

1/ U.S. data for the Central Plains area.

2/ Argentine data for the Pergamino area.

3/ Canadian data for Saskatchewan area.

4/ Australian data are national averages.

5/ French data are for the Paris Basin.

Wheat: Real Comparative Costs and Returns*

Country/Region	Year	Yield	Support Price	Gross Farm Returns		Export f.o.b. Price	Production Costs		
				C	D		F	G	H
	A (year)	B (bushel per acre)		dollars per bushel					
United States	1974/75	28.5 ¹	2.33 ²	4.28 ⁴	4.83 ⁶	2.79 ¹	.84	1.45	.89
United States	1975/76	27.1 ¹	2.60 ²	3.10 ⁴	3.80 ⁶	3.01 ¹	.86	1.03	.82
United States	1976/77	28.2 ¹	3.09 ³	2.46 ⁴	3.06 ⁶	2.73 ¹	1.13	.90	.80
United States	1977/78	29.8 ¹	3.39 ³	2.89 ⁵	3.61 ⁶	2.60 ¹	1.30	1.11	.80
Australia/New South Wales	1976/77	22.3 ⁷	2.72 ⁹	2.55 ¹⁰	3.23 ¹¹	1.43 ⁷	1.90	1.78	.79
Australia	1976/77	17.2 ⁸	2.72 ⁹	2.55 ¹⁰	3.23 ¹¹	2.11 ⁷	1.29	1.21	.79
Australia	1977/78	17.2 ⁸	2.63 ⁹	2.56 ¹⁰	3.57 ¹¹	1.54 ⁸	1.71	1.66	.72
Canada/Pallister	1976/77	25.0 ¹⁶	3.34 ²¹	3.18 ²³	3.87 ²⁴	3.16 ¹⁶	1.06	1.01	.82
Canada/Alberta	1976/77	30.6 ¹⁷	3.34 ²¹	3.35 ²³	3.87 ²³	3.15 ¹⁷	1.06	1.06	.87
Canada/Alberta	1977/78	22.0 ¹⁸	2.83 ²²	2.69 ²³	3.71 ²⁴	2.84 ¹⁸	1.00	.95	.73
Canada/Saskatchewan	1977/78	25.4 ¹⁹	2.83 ²²	—	3.71 ²⁴	3.14 ¹⁹	.90	—	—
Canada	1977/78	24.0 ²⁰	2.83 ²²	2.09 ²³	3.71 ²⁴	3.05 ²⁰	.93	.88	.73

*Argentina's costs and returns cannot be satisfactorily updated into July 1978 terms because of rampant inflation. Hence, these estimates are excluded from this table.

Soybeans: Real Comparative Costs and Returns**

Country/Region	Year	Yield	Support Price	Gross	Export	Production	C/B	D/F	D/E
				Farm	f.o.b.	Costs			
				Returns	Price				
A	B	C	D	E	F	G	H	I	J
(year)	(bushel)	per acre)	per acre)	per bushel					
United States	1975/76	28.0	1/	2.92	2/	7.95	4/	6.57	1/
United States	1976/77	25.2	1/	3.85	2/	6.39	4/	8.37	6/
United States	1977/78	28.8	1/	4.63	3/	6.68	5/	6.95	1/
United States	1978/79	27.5	1/	*4.50	3/	*6.10	5/	*7.08	6/
Brazil / Rio Grand do Sul	1977/78	26.0	7/	2.90	11/	4.83	13/	7.61	15/
Brazil/Parana	1978/79	32.1	8/	*3.52	12/	*4.92	14/	--	--
Brazil/Parana	1978/79	31.2	9/	*3.52	12/	*4.92	14/	--	--
Brazil	1978/79	28.5	10/	*3.52	12/	*4.92	14/	--	--

*Nominal Prices.

*Argentina's costs and returns cannot be satisfactorily updated into July 1978 terms because of rampant inflation. Hence these estimates are excluded from this table.

Corn : Real Comparative Costs and Returns

Country/Region	Year	Yield	Support Price	Gross Farm Returns	Export f.o.b. Price	Production Costs	C/P	D/F	D/E
(year)	A	B	C	D	E	F	G	H	I
(bushel ----- July 1978 dollars per bushel ----- per acre)									
United States	1975/76	85.7	1/	1.83 2/	2.51 4/	3.40 6/	1.95 1/	.94	1.29
United States	1976/77	87.1	1/	2.20 2/	2.24 4/	2.75 6/	1.87 1/	1.18	1.20
United States	1977/78	70.7	1/	2.16 2/	2.14 4/	2.58 6/	1.74 1/	1.88	1.86
United States	1978/79	92.0	1/	*2.20 3/	*2.20 5/	*2.50 6/	*1.67 1/	1.32	1.32
Argentina/Pergamino	1977/78	81.1	7/	N.A.	2.14 9/	2.68 10/	1.46 7/	N.A.	1.47
Argentina/Pergamino	1978/79	62.6	8/	N.A.	-	-	*1.85 8/	N.A.	-
South Africa	1976/77	37.8	11/	2.36 12/	2.36 12/	2.79 13/	1.64 11/	1.43	1.43
South Africa	1977/78	39.3	11/	*2.34 12/	*2.34 12/	*2.95 13/	*1.67 11/	1.40	1.40
France/Brittany	1977/78	82.7	14/	4.13 15/	4.99 16/	6.58 17/	4.21 14/	.98	1.19
Thailand	1975/76	37.2	18/	N.A.	2.61 19/	3.66 20/	1.70 18/	N.A.	1.54
Thailand	1976/77	33.1	18/	N.A.	2.38 19/	3.28 20/	1.64 18/	N.A.	1.45
Thailand	1977/78	22.1	18/	N.A.	2.17 19/	3.04 20/	1.87 18/	N.A.	1.16

Wheat: Production Costs and Related Data for Selected Countries,
1976/77

Country	Yields : Bushels : per acre	Production : costs	Fertilizer : costs	Price received : by farmers	Support : price
----- U. S. dollars per bushel -----					
United States	28.2	2.43	0.40	2.31	<u>1/2.1</u>
Canada	27.8	2.65	.12	2.84	2.2
Australia	17.2	1.70	.29	2.29	2.2
Argentina	25.7	1.53	<u>2/--</u>	2.96	N.A.
Weighted average of principal competitors (not including U.S.)	24.6	2.26	.15	2.70	N.A.

N.A. = Not applicable.

1/ Target price.

2/ The budgetary data was not clear about fertilizer use.

Corn: Production Costs and Related Data for Selected Countries
1977/78

COUNTRY	Yields : Bushels : per acre	Production : costs	Fertilizer : costs	Price received : by farmers	Support : price
----- U.S. dollars per bushel -----					
United States	90.7	1.60	0.37	2.08	<u>1/2.10</u>
Argentina	81.1	1.04	<u>2/--</u>	2.12	N.A.
South Africa	39.3	1.67	.62	2.34	2.34
France	82.7	3.83	.96	4.84	<u>3/4.01</u>
Thailand	22.1	1.73	.03	2.10	N.A.
Weighted average of principal competitors (not including U.S.)	62.5	1.71	N.A.	2.58	N.A.

N.A. = Not applicable.

1/ Loan rate and target price.

2/ The budgetary data was not clear about fertilizer use.

3/ Intervention price.

Soybeans: Production Costs and Related Data for Selected Countries,
1978/79

Country	Yields : Bushels : per acre	Production : costs	Fertilizer : costs	Price received : by farmers	Support : price
----- U.S. dollars per bushel -----					
United States	27.5	3.53	0.15	6.10	<u>1/4.50</u>
Brazil	<u>2/30.6</u>	<u>2/3.77</u>	.64	4.92	3.52
Argentina	33.4	4.64	<u>3/--</u>	4.56	N.A.
Weighted average of principal competitors (not including U.S.)	30.8	3.82	--	4.90	N.A.

N.A. = Not applicable.

UNITED STATES: COSTS OF PRODUCTION FOR WHEAT IN 1983

US \$ per hectare

	All Wheat a)	Hard Red Winter b)	Soft RW
Seed	15.6	11.5	23.57
Fertilizer	41.3	26.4	82.61
Chemicals	6.6	4.3	4.00
Contract Operations	11.9	15.4	13.07
Fuel	28.9	31.9	24.41
Repairs	22.9	22.9	18.38
Purchased Irrigation	0.8	0.7	-
Miscellaneous	0.3	-	1.24
Management Fees	0.3	0.3	.96
TOTAL VARIABLE EXPENSES	128.6	113.4	168.25
<hr/>			
ECONOMIC COSTS			
Variable Expenses	128.6	113.4	168.25
General Farm Overhead	18.2	16.1	13.34
Taxes and Insurance	20.5	18.6	22.81
Capital Replacement	56.7	54.8	50.51
Return to Operating Capital	6.1	5.9	8.25
Return to Other Non-Land Capital	20.7	19.7	17.96
Net Land Rent	84.0	80.6	76.18
Labour	26.6	25.9	29.40
TOTAL ECONOMIC COSTS c)	361.4	335.0	386.71

- a) Average for all classes of wheat.
- b) Average for Hard Red Winter in all regions. Total economic costs for Soft Red Winter were \$386.7 per ha., and for Hard Red Spring wheat \$338.6 per ha.
- c) Defined as showing "the breakeven long-run average price necessary to continue producing a crop".

SOURCE USDA: Economic Indicators of the Farm Sector: Costs of Production, 1983.

Table 1:1

CANADA: COSTS OF PRODUCTION FOR WHEAT IN 1984 a)

per hectare

	CAN \$	US \$
<u>OPERATING COSTS</u>		
Seed	20.9	16.8
Fertilizer	64.3	51.8
Sprays	45.7	36.8
Machinery	17.3	13.9
Fuel	22.3	18.0
Insurance	11.7	9.4
Miscellaneous	12.4	9.9
Interest	12.6	10.1
<u>FIXED COSTS</u>	198.7	160.0
Machinery Depreciation	34.6	27.9
Interest on Machinery (9%)	31.1	25.0
Storage	6.9	5.6
Labour Management	39.5	31.8
Land	86.5	69.6
<u>TOTAL PRODUCTION COSTS</u>	406.0	326.9

a) Province of Manitoba

* Converted at Exchange rate for January 1984:
CAN \$ = US \$0.805

SOURCE: Canadian Wheat Board.

Table 1:2

EEC (FRANCE)*: COSTS OF PRODUCTION FOR WHEAT IN 1983

per hectare

	Francs	US \$ a)
Seed	388	49.4
Fertilizers	807	102.8
Sprays	585	74.5
Depreciation	469	6.0
<u>VARIABLE COSTS</u>	2249	286.5
<u>FIXED COSTS</u>	4036	514.2
Return on Capital (@ 5%) and Management (6%)	895	114.0
<u>TOTAL COSTS</u>	7180	914.7

* Wheat in Brie-Champenoise Region under Wheat/Maize Rotation. Average for ten farms.

a) Exchange rate for January 1983: US \$ = Fr. Francs 7.85

SOURCE: ONIC, Paris

Table 1:3

EEC (UNITED KINGDOM)^{a)}: COSTS OF PRODUCTION FOR WINTER WHEAT IN 1983^{b)}

per hectare

	£	US \$ c)
Seed	38.7	53.1
Fertilizer	83.5	114.5
Sprays	79.5	109.0
Miscellaneous	16.0	21.9
VARIABLE COSTS	209.7	287.5
Labour	74.7	102.4
Machinery and Power	152.9	209.6
Rent	101.2	138.7
Sundries	49.1	67.3
FIXED COSTS	377.9	518.1
TOTAL PRODUCTION COSTS	587.6	805.6

a) Eastern counties of England.

b) At 1983/84 prices

c) Exchange rate for January 1983: £ = US \$1.371

SOURCE: Department of Land Economy, University of Cambridge. "Report of Farming in the Eastern Counties of England 1983/84".

WHEAT: COSTS OF PRODUCTION PER TON

Country	Year	Production Costs per hectare US \$	Yield tons per hectare	Production Costs per ton US \$
Canada	1984	327	2.08	157
EEC				
France	1983	915	6.31	145
United Kingdom	1983	806	6.41	126
United States	1983 ^{a)}	361	2.49	145
	1983 ^{b)}	335	2.48	135
	1983 ^{c)}	387	2.54	152

- a) All wheat
- b) Hard Red Winter
- c) Soft Winter

Table 1:6
EXCHANGE RATES AT SELECTED DATES

	US \$	JAN-MCH 1981	JAN-MCH 1982	JAN-MCH 1983	JAN-MCH 1984	DEC 1984
Canada	CAN \$	1.187	1.230	1.234	1.277	1.321
EEC						
France	FR FR	4.958	6.242	7.270	7.980	9.959
United Kingdom	£	0.433	0.541	0.653	0.697	0.863

SOURCE: IMF, International Financial Statistics, February 1985.

FUTURE GROWTH MARKETS FOR U.S. COMMODITIES AND PRODUCTS

FUTURE GROWTH MARKETS FOR U.S. COMMODITIES AND PRODUCTS

Despite recent pessimism associated with the potential for expanding U.S. agricultural exports worldwide, there continues to be significant future opportunity for U.S. agriculture in the markets of the world.

In the spring of 1985, staff members of the National Commission on Agricultural Trade and Export Policy met with officials of USDA's Foreign Agriculture Service (FAS) and requested a study be performed on the question of which countries had greatest potential for export growth for U.S. agricultural commodities. The Commission asked that FAS analysts identify the 15 most promising markets for several agricultural products. This paper summarizes, commodity-by-commodity, the findings reported by the various FAS commodity divisions.

The overall study is based upon the following economic assumptions, both general and specific to the agricultural sector:

- Farm and forestry programs will allow the United States to be competitive.
- The dollar will be in reasonable equilibrium relative to other currencies.
- Economic growth in the United States will average between 3 and 5 percent.
- U.S. inflation will average a relatively modest 3 to 5 percent.
- The world trading system will move toward fair trade.

According to recent testimony received by the Commission by Robert L. Thompson, Assistant Secretary of Agriculture for Economics, these assumptions are fairly realistic. Speaking before the Senate Agriculture Committee on June 3, 1986, Secretary Thompson stated that, because of improved global economic conditions, the Department anticipates renewed growth in U.S. agricultural trade over the next decade, albeit not at levels reached during the 1970s.

The results of the Commission's investigations follow.

Wheat

Middle-income developing countries on all continents appear to present the best prospects for future wheat sales. Changing consumption patterns accompanied by the development of baking industries, increased income and economic growth, and more favorable exchange rates should all work to increase U.S. wheat exports.

The People's Republic of China. China is an expanding market for quality wheat products. It is modernizing its milling industry and, as a result of consumer demand, is switching its production from standard to fine flour, which requires more wheat. The wheat foods processing industry is also modernizing, responding to and further stimulating consumer demand for wheat food products.

Iraq. Iraq faces several constraints to increased wheat imports: low levels of milling and processing technology, insufficient levels of management and technical expertise, infrastructural problems, and a severe shortage of foreign exchange caused by the war with Iran. A U.S. cooperator, U.S. Wheat Associates, signed an agreement with the Iraqi grain organization for technical assistance, trade servicing, and information services. These activities, by ameliorating importing and processing problems, can stimulate U.S. exports and consumer demand.

Brazil. Opportunities for increased wheat exports to Brazil exist in its growing population and the potential for improvement in domestic baked goods. Technical and managerial improvement in the milling and baking industries will increase demand for wheat food products. The bulk of Brazil's wheat consumption is met by imports. In addition, Brazil does not fully understand the U.S. grading and exporting system, prompting a perception that U.S. wheat is lower quality. Once the Brazilian industry understands U.S. wheat quality, demand should improve.

Nigeria. Nigerian imports of U.S. wheats continue to grow at a respectable rate despite the country's economic difficulties. Although consumption is about 1.5 million tons, actual

demand may be twice this, as indicated by the difference between the controlled and black market prices for flour.

Algeria. Algeria currently imports between 2 and 3 million tons of wheat, of which around 20 percent is from the United States. Efforts by USDA and market cooperators are developing ties between exporters and the Algerian procurement organizations for increased regular supplies of U.S. wheat.

Mexico. Wheat imports have declined in Mexico as a result of very favorable weather and increased land going into wheat production. However, wheat foods are very popular and 50 percent of the wheat produced in Mexico is under irrigation. When water supplies are short, wheat will have to be imported. Also, continued growth in population will continue to challenge Mexico's efforts to meet consumption from domestic production.

Morocco. Limited opportunities for increasing domestic cereal output because of climate and other factors, together with population increases of nearly 3 percent annually, will force Morocco into the position of an ever-larger importer of wheat. The U.S. should maintain its dominant share of the market given appropriate maintenance of U.S. credit programs.

Korea. Continued growth in income, combined with increased popularity with wheat foods, which are expected to replace rice and barley in the diet, are expected to make South Korea a major growth market for wheat in the future.

Peru. Lack of other alternative cereal grains domestically will require Peru's continued dependence on foreign sources for grain. Peru's limitations are climatic and topographic; nearly one-half of the country is covered by the large Andean mountain range. Wheat foods are growing in popularity and, if the current price relationship versus rice continues, wheat will comprise the largest volume of cereal imports.

Indonesia. While there are some questions regarding the amount and timing of future growth in wheat demand in Indonesia, it represents one of the markets with the greatest potential for increased growth. Current levels of wheat consumption are very low and the population is growing at over 2 percent per year. As

the economy grows and becomes more industrialized, Indonesia is expected to continue to increase its imports of wheat.

India. India is another market that contains a good deal of uncertainty regarding any specific year's imports. However, with governmentally supported wheat promotion efforts in Southern India and a population growing at over 2 percent annually, imports can vary between 0.1 - 5 million tons per year depending upon the amount of rain received during the monsoon.

East Germany. Prior to relations souring between the U.S. and Eastern Europe, East Germany was a sizeable market for U.S. wheat. Although U.S. sales are currently zero, there is reason to believe that the U.S. will be able to regain some of its lost market share due to a reduction in tension in the area and expressions of interest on the part of the East Germans.

Venezuela. Venezuela has been a good market for U.S. wheat and although competition with Canada intensifies, it should remain a predominant U.S. market for wheat. Demand growth in Venezuela is primarily a function of a large and growing middle class in Venezuela that desires quality bread and pasta products in their diet.

Colombia. The expectations for increased demand for wheat in Colombia are based upon relative higher income potential (as in Venezuela) compared to other South American countries; its low per capita consumption of wheat products in the diet; and a recent survey indicating consumers want more wheat product availability. Other starches such as corn, bananas, and potatoes are dominant in the diet. However, the popularity of sandwiches, pizza, and pasta products is requiring larger imports.

Yugoslavia. Wheat production in Yugoslavia varies quite significantly but traditionally it has been a net importer of wheat. Although most imports are of the soft red type, Yugoslavia has purchased U.S. soft wheat even at a price premium because of its higher test weight. The U.S. has exported hard wheat as well to Yugoslavia.

Coarse Grains

As one would expect, good prospective markets for future coarse grain sales are largely

in those countries that are expanding livestock production. Therefore, middle-income developing countries predominate in this list.

Japan. Japan will continue to show a strong feedgrains demand growth from the livestock and poultry sectors. Meat consumption is still low relative to other developed countries. There is virtually no potential for expansion of domestic coarse grain production to meet growing demand.

China. Increasing animal protein consumption from the current low level is a primary goal of the Chinese government. With a large population base and an expanding, decentralized economy, livestock production and coarse grain use should increase rapidly. Domestic coarse grain production will continue to rise but will not be able to keep pace with expanding demand.

Mexico. Strong growth in livestock product demand will come from population growth and economic recovery. Proximity to the United States will mean a high U.S. market share of Mexican feed grains imports.

Korea. Korea will continue to have strong economic growth during the next decade, which will expand demand for livestock products. There is little potential for expanded domestic coarse grain production to meet the increased use by the livestock and poultry sectors. Reduction in Chinese corn export availabilities will allow the United States to recapture a large market share.

Egypt. Population growth and limited potential for expansion of domestic grain production will mean high livestock and poultry production and larger demand for imported coarse grains. Continued credit availability from the United States will be required due to limited foreign exchange, but will mean a large U.S. market share.

USSR. The commitment by the government to provide a better quality diet to the Soviet people will require increased livestock production. There will be some continued expansion of both production and consumption of feed grains, with wide fluctuations due to weather. There will be some shift in total grain imports toward the feed grains component.

Taiwan. Strong economic growth and

strong expansion of dairy and aquaculture will likely push imports higher. Increased consumption of pork and poultry are expected to stimulate production.

Saudi Arabia. Demand growth for livestock products may decrease due to a slackening rate of economic growth and a reduction in numbers of guest workers. However, improvements in bulk handling facilities should benefit imports from the United States.

East Germany. It is expected that livestock product demand, particularly for poultry, will increase moderately, and that domestic grain production will expand only modestly.

Venezuela. Strong growth in livestock product output is expected as Venezuela moves to modernize its livestock industries. Also, improvements in Venezuela's international debt situation should ease pressures limiting imports.

Peru. Although financial problems in Peru will continue to hold demand below potential, rapid population growth and a gradual economic recovery in the late 1980s should provide long-term import demand growth. Credit will still be an important factor in imports.

Algeria. Algeria's demand will continue to grow rapidly due to population pressure and to relatively strong per capita income increase. Algeria's massive plan to develop agriculture over the next five years will help to stimulate livestock and poultry production.

Iraq. Growth in per capita livestock product consumption is expected to stay slightly ahead of population growth rates. U.S. exports will benefit further by continued improvement in U.S.-Iraqi diplomatic relations and the expectation that Turkey will no longer be a consistent grain supplier to Iraq.

Colombia. High population growth rates will increase demand for livestock products, although continued financial problems will limit this demand and thus demand for feed grains. Barley could be a growth area.

Syria. Imports should increase due to continued moderate growth in livestock product consumption and slow growth in domestic grain production. If diplomatic relations improve, credits could be made available which would further enhance U.S. exports.

Soybeans

Like feed grains exports, overseas sales of soybeans and soybean meal are largely dependent upon development of livestock industries. Demand for oil tends to be less elastic.

Algeria. U.S. soybean exports to Algeria are expected to rise due to the country's high population and rising income level. Development of the livestock (primarily poultry) industry will require larger meal imports.

People's Republic of China. China's enormous population and new economic system are outstripping the country's capacity to produce sufficient feed.

Colombia. Colombia's satisfactory economic progress and management of its external debt will allow it to import more U.S. soybean oil.

Egypt. Egypt has one of the fastest growing populations in the world, and is seeking to develop a livestock industry. There still remain some uncertainties over whether Egypt will be able to pay for increased meal and oil imports.

India. India's population increase is exceeding its ability to produce oil, necessitating continued imports.

Indonesia. A growing poultry industry will prompt greater soybean product imports.

Japan. Already the largest importer of U.S. soybeans and products, Japan is still an expanding market. Livestock consumption is still fairly low by western standards; there is room for continued growth.

Korea. Economic expansion is cited as the reason for higher U.S. soybean product imports.

Malaysia. Malaysia has attained greater political stability and is experiencing rapid growth – its economic infrastructure is sound. The country's poultry industry will require more U.S. meal.

Nigeria. Nigeria still has significant, though dwindling, foreign exchange earnings from its oil exports. It is the most populous country in Africa.

Pakistan. Pakistan is one of the more economically progressive countries in the area. They currently import mainly oil from the United States, but may be moving to an economic level

where they can develop a livestock industry.

Turkey. Turkey is currently developing a livestock industry based on exports to the Middle East. It is hoped that this will cause greater meal imports from the U.S.

USSR. The Soviet Union may have a much larger growth potential than that indicated in the table. Purchasing decisions are in part politically motivated. Should the Soviets put more emphasis on the soybean side, its imports could soar almost overnight.

Venezuela. Economic growth is buoyed up by continued oil export earnings. A continuation of past trends is foreseen.

Cotton

FAS analysts forecast that major growth markets for cotton will mainly be found in three regions: East Europe/USSR, Africa (including Egypt), and Asia (including Bangladesh). Jamaica and Greece were also identified as having excellent potential.

East Europe/USSR. The study assumes that the USSR would continue to have difficulty expanding cotton production as rapidly as their domestic demand and the demand in East Europe. The projections also anticipate that East European countries would receive Most Favored Nation status and that their economies would improve sufficiently in order for them to purchase U.S. cotton.

Asia. A burgeoning textile industry, population increases, and continued economic growth should result in increased shipments to Asian countries, particularly Bangladesh, Indonesia, and the Philippines.

Africa. Cotton production in Egypt is projected to continue the downward trend as pressure grows to expand production of food. An assumption was made that the Egyptian government would decide to import U.S. cotton in larger quantities in order to maximize exports of higher valued extra long staple cotton.

Nigeria. Nigeria may find it difficult to increase cotton production even to meet its own needs. Therefore, with some improvement in foreign exchange earnings, the U.S. could become an important supplier of cotton.

Greece. Greek cotton production will likely

decline as the EC payments are reduced. This, combined with the advantage of selling textile products to other EC members, should maintain or improve the demand for cotton and, hence, U.S. cotton.

Jamaica. A new mill has been built in Jamaica by the Chinese. When this mill starts operating, it will roughly double Jamaican milling capacity and provide an opportunity for U.S. cotton to be used.

Rice

FAS analysts identified four major growth markets for rice: France, South Africa, and two Middle Eastern countries – Saudi Arabia and Iraq.

[Note: This study was completed before passage of the 1985 Farm Bill. The new law authorizes the Secretary of Agriculture to conduct a "marketing loan" program for rice. Under a marketing loan, farmers would be guaranteed a specified loan level, but would repay the loan at the amount for which they are able to sell the commodity. It is anticipated that this program, which Secretary Lyng set in motion for next year's crop, will allow American rice prices to sink to market-clearing levels, enabling the United States to become more competitive in world markets.]

Iraq. Iraq has recently become the largest single country market for U.S. rice. Iraq's rice imports from all sources have doubled over the past ten years, and the U.S. share of this growth has been increasing steadily. Further, Iraq has been, and is expected to continue to be, a strictly commercial market for U.S. rice.

Saudi Arabia. Saudi Arabia is a very quality-conscious market for U.S. long grain rice. Saudi consumers prefer parboiled rice from the United States, and our exports to this market have shown steady growth. There is no domestic production of rice in Saudi Arabia, and it must turn to the world market for all of its rice consumption requirements.

South Africa. Changing import volumes are a function of varying rice consumption and fluctuating stock levels. Since 1980, rice imports have increased nearly 50 percent and had an average annual increase of 11 percent. The U.S. share has not increased at the same rapid pace,

due to extremely low prices offered by competing countries. But prospects for growth of U.S. rice exports to South Africa are bright, as consumers continue to develop a more sophisticated diet.

France. Rice is becoming more and more popular in the kitchens of France. Rice imports have not grown dramatically, but a strong brand loyalty has developed as a result of promotional efforts by the U.S. rice industry. U.S. rice is preferred because of its high-quality image.

Fresh Fruits

Over one-half of the anticipated market growth in U.S. fresh fruits exports over the next ten years should occur in the Pacific rim countries. Prospects for fresh fruit exports are also improving for South and Central America as well as the Arabian Peninsula.

Japan. The Japanese market will continue to grow because of the expansion of the orange quota and, hopefully, future liberalization of orange imports. An eventual lowering of the grapefruit import duty should help the U.S. market for that commodity. A resolution of codling moth problems should also permit imports of U.S. apples, pears, and stone fruit.

Hong Kong. Hong Kong is now mostly a market for oranges and apples. Growth in exports will come chiefly from a broadening of U.S. exports to include more products, especially lemons and grapefruit.

Singapore. Singapore should also diversify the range of products which it imports from the United States.

Taiwan. In Taiwan the market for apples has flattened, but a large potential for other fruit will develop as import restrictions are loosened.

South Korea. U.S. lemon exports to South Korea will increase following the recent import liberalization of this product. In addition, import restraints on other products are also being removed.

Malaysia and Thailand. Markets in Malaysia and Thailand have been receptive to U.S. products recently. It is hoped that further growth is possible.

Saudi Arabia and the U.A.R. Saudi Arabia and the United Arab Emirates will import in-

creasing quantities of U.S. fruit other than apples. In addition, the United States could capture some of France's share of the apple market.

Australia. An off-season market for oranges is developing in Australia. This may grow to include other products.

Canada. Canada should share in the anticipated market growth for fresh produce in North America.

Mexico. Economic growth in Mexico's border zone should stimulate some import growth.

Venezuela. Venezuela is one of the few Latin American countries that may see its way out of the debt crisis during the next decade. This should eventually have a positive effect on income and economic growth, as well as improving demand for U.S. fruits.

Colombia. U.S. exports to Colombia, like those to other countries, should improve if current import restraints are relaxed.

Sweden. The U.S. market share in Sweden suffered after a major currency devaluation there in 1982. Currency realignments and changing economic conditions since that time should permit the United States to recover some of its market.

Processed Fruit

Prospects for increased exports of U.S. processed fruit are especially bright for Middle and Far East markets. Dried fruit will account for most of the growth in processed fruit trade. Frozen fruit exports, although much smaller, should be even more dynamic, but the outlook for canned fruit is not encouraging.

United Kingdom. The United Kingdom market for raisins and dried prunes is expected to show substantial growth because of the successful promotional programs for packaged, U.S.-identified products.

Middle East/North Africa. Middle Eastern and North African countries appear to be among the most promising growth markets for dried fruit. Dried fruits are traditional consumption items in these countries and recently-initiated U.S. promotional programs are expected to result in increased exports.

Far East. Continued growth in raisin and prune exports to Far Eastern markets also is

likely, given the room for increased per capita consumption and anticipated favorable economic growth in those countries.

Mexico and Indonesia. An easing of import restrictions in Indonesia and Mexico could help processed fruit trade.

Fruit Juices

Pacific rim and Middle Eastern countries lead the list of good export prospects for fruit juices, much as they do for processed and fresh juices.

Japan. The Japanese market for fruit juice is promising because of the recently agreed-upon liberalization of grapefruit juice imports. In addition, the expanded quotas and an eventual liberalization of orange juice imports could provide additional marketing opportunities. Expanded markets for other juices, such as grape and cranberry, are dependent upon elimination of Japan's import quotas.

Mexico. Economic growth in the border regions could lead to expanded juice markets in Mexico.

Oceania. Trade liberalization and a growing demand for a greater variety of products will spur exports to Australia and New Zealand.

Taiwan. Import liberalization is the key to greater penetration in Taiwan.

Hong Kong, Singapore, Malaysia. Rapid economic growth will help boost juice exports to these countries.

Scandinavia. Exports to Sweden and Norway should recover from current low levels after the exchange rate situation improves.

Israel. U.S. juice is likely to be used for blending with Israeli products and then re-exported to third countries.

Fresh Vegetables

Increased competition from other suppliers limits export growth potential for fresh vegetables. Nevertheless, U.S. fresh vegetable exports are expected to benefit from the growing interest in natural, healthy foods.

Canada. Modest growth in exports to the Canadian market is closely related to the above-mentioned trend in natural foods.

Singapore/Hong Kong. Continued in-

come growth in Singapore and Hong Kong will help demand for high quality U.S. fresh vegetables.

Venezuela/Mexico, Sweden/Norway. Projected export growth to these countries represents a recovery following the decline in exports in the early 1980s.

Taiwan, Australia, U.A.R. Projected import growth in these countries is a continuation of recent trends.

Tree Nuts

Middle Eastern and North African countries appear to be among the most promising growth markets for U.S. tree nut exports. Tree nuts are traditional consumption items in these countries and recently initiated U.S. promotional efforts are expected to produce increased exports.

Data for recent years indicates increased tree nut shipments to the Netherlands, but these apparently represent a shift away from direct shipments to such markets as Germany, Spain, France, and Italy in favor of trans-shipments through Rotterdam. Except for newer export products such as pecans and pistachios, little or no growth can be expected in West European markets.

Japan. The steady growth in the Japanese market, backed by intensive promotional efforts, is likely to continue through the next decade.

Canada. The Canadian market has been flat in recent years, but efforts to expand the domestic U.S. market are likely to spill over into Canada.

Taiwan/South Korea. Loosening import barriers will aid in the Taiwanese and South Korean markets.

India. Growth in the Indian market depends upon an easing of trade barriers there.

Wine and Beer

The rising value of the dollar has been especially hard on U.S. wine exports. A moderation of the dollar, intensive promotional efforts, and attempts to lower trade barriers are expected to provide opportunities for reinitiation of growth in wine exports during the next decade. [Note: Beer accounts for about two-fifths of the vol-

ume and one-half of the value of beer and wine exports. Beer exports are divided roughly one-third to Canada, one-third to the Caribbean Islands, and one-third to the Far East, including Micronesia, Japan, and Hong Kong.]

Japan, Singapore, Hong Kong, U.K. Market promotional activities will be directed at these countries.

Canada. A loosening of sales restrictions by provincial liquor stores will help in the Canadian market. A rapid increase in beer sales in particular could take place.

Korea/Taiwan. Chipping away at trade barriers will open new markets in Korea and Taiwan.

Venezuela. Economic problems have limited Venezuelan imports of U.S. wine in recent years, but the long run outlook is encouraging.

Jamaica. Jamaica is a promising market for bulk wines.

Nursery Products

Many countries importing U.S. nursery products have their own growing nursery industries and rely on U.S. materials for propagation materials. Some growing markets in this category include the Netherlands, Israel, Costa Rica, Jamaica, and the Dominican Republic. The Free Trade Agreement should help sales to Israel. An important market for fruit trees exists in countries expanding their fruit orchards, especially countries in the Middle East, North Africa, and Central America. Market promotion activities for ornamental plants in West European countries should help to lift exports.

Miscellaneous Items

Hops and hop products account for about 20 percent of this category. The remainder consists of mostly highly processed items such as blended food products not elsewhere classified, edible preparations not elsewhere classified, sauces, canned soup, and potato chips. Projections on the table in the appendix are based on the trends of recent years.

Beef

Japan is expected to lead the pack of importers of U.S. beef. Prospects are also bright for other Pacific rim countries. Border trade

(Canada and Mexico), and sales to nearby Caribbean nations are also expected to increase as the dollar weakens and tourist industry recovers.

Japan. Beef exports to Japan are expected to be more than double their 1980-1984 average level. Chief reasons for this export growth are anticipated removal of the quota on imported beef, and an increase in Japan's population.

Canada. A weakening of the Canadian dollar vis-a-vis the U.S. dollar, along with an expansion of the Canadian fast food industry, should both contribute to increased U.S. beef exports.

Barbados/Bahamas. Economic growth, fueled by a recovery of the tourist trade, is expected to encourage purchases of U.S. beef by these and other Caribbean nations, including the Netherland Antilles, Bermuda, the Leeward-Windward Islands, and the Cayman Islands.

Taiwan. Consumer sector purchases should allow for steady growth of beef exports to Taiwan.

South Korea. U.S. beef sales to South Korea are expected to nearly double in the next decade. Population growth will have an impact. The economy should receive a shot in the arm from the 1990 Olympic games, scheduled to be held in Seoul.

Hong Kong/Singapore. Increased consumer purchases and some population growth should help boost beef sales to these countries.

Pork

Like beef exports, pork sales to overseas customers are expected to rise significantly to Japan, and to neighboring countries. U.S. pork exports to Western Europe – especially EC members – should also rise, provided that there is no impact of the EC meat directive (a third-country meat directive that establishes restrictive standards that countries have to meet before they can be certified as being able to ship meat to the EC).

Japan. Population growth should allow exports of U.S. pork to increase steadily. The trend also assumes an absence of competition from subsidized EC pork products.

Mexico. Population growth and local economic recovery should allow the U.S. to main-

tain a fairly steady level of pork sales to Mexico.

Canada. A depreciation of the dollar should boost pork exports to Canada over the next decade, but probably not quite to the level achieved between 1980 and 1984.

EC (France, U.K., Benelux, W. Germany). The weakening of the dollar should allow U.S. pork producers to become more competitive with Danish producers. The forecast also assumes that the EC meat directive will not have an impact.

Caribbean Islands/South America (Bahamas, Leeward-Windward Islands, Netherland Antilles, Venezuela, Chile). Forecasts for improved sales of U.S. pork to this region assume a recovery of tourist trade, a lifting of trade restrictions, and the maintenance of the U.S. comparative advantage in production. Development of a processing industry in Chile should also boost U.S. pork imports.

Singapore/Hong Kong. The absence of a pork industry, as well as the continued acceptance of frozen product may allow U.S. pork sales to Singapore to nearly quadruple in the next decade. Sales to Hong Kong should remain fairly steady, assuming that the People's Republic of China does not attempt to penetrate this market. Population growth also should encourage continued imports of U.S. pork.

Variety Meats

U.S. exports of variety meats are sent mainly to the EC, the Middle East, the Pacific rim, and countries bordering the United States.

EC Countries (France, U.K., Benelux, and West Germany). Sales of American variety meats to this region depend upon a lack of impact of the EC meat directive. Because of a declining consumption pattern, exports to France and the United Kingdom are expected to fall off somewhat.

North/South America. Border trade with Canada and Mexico, as well as trade with Caribbean nations and Venezuela, should remain fairly steady over the next decade. Population growth, currency realignment, and product awareness all account for a continuing U.S. overseas market for variety meats.

Pacific Rim. Population growth should help boost exports of U.S. variety meats to Japan by

nearly 100 percent between now and the middle of the next decade. Hong Kong and South Korea should continue to purchase modest amounts.

Middle East (Egypt and Israel). Population growth and hotel and restaurant trade increases should allow the United States to maintain its variety meats export levels to Egypt and Israel.

Tallow and Grease

The category "tallow and grease" includes lard, edible and inedible tallow, and choice white grease. During the first quarter of Calendar Year 1985, U.S. exports of these commodities were down 25 percent in volume from the same 1984 period. The basic reason for this decline was the continuing strength of the dollar combined with increasing overseas tallow production (particularly in the EC and Japan), and/or shifts to alternative supply sources such as Argentina and Oceania. The next ten-year period will be a "shaking out" period of competition between tallow and vegetable oils, particularly palm oil.

Far East, EC, Pakistan, USSR. Stiff competition will be encountered in the Far East, Pakistan, the EC, and the Soviet Union. Tallow gains in these markets will be largely a result of population growth and demand, and will depend upon the extent to which petroleum is replaced by animal and vegetable fats.

Egypt. Gains in Egypt, the number one tallow and grease market since 1979, are limited by what this market can absorb. Some pressures from palm oil are now evident, but it is hoped that the Egyptian soap industry will not commit itself fully to a petroleum-based detergent.

Central/South America. In Central and South America, USDA credit programs have been very helpful. Also, environmental considerations are rising, and natural-based, renewable resource materials of animal and vegetable fats and oils are favored. Given gradual economic recovery, Colombia, Guatemala, and El Salvador will be growth markets through 1995.

Whole Cattle Hides

Exports of U.S. whole cattle hides are sent to countries which have or are developing sig-

nificant industries.

Far East (South Korea, Taiwan, Malaysia, Thailand, the PRC). Whole cattle hide exports to Korea and Taiwan are expected to remain fairly steady over the next decade, due to continued export demand for leather goods. Trade sources indicate that Malaysia and Thailand are significant growth prospects. Both countries are expanding their tanning and leather goods manufacturing facilities. A rapid expansion of leather production facilities is also expected to spur exports to the People's Republic of China over the next decade.

Mexico. If the Mexican economy grows or maintains a steady course, whole U.S. cattle hide exports should improve.

Italy. Stable export prospects for leather goods should allow the U.S. to maintain a steady level of hide exports to Italy.

Czechoslovakia. A stagnant livestock industry, unable to meet the country's demand for leather, will mean that Czechoslovakia will continue to import hides from the United States.

USSR. Expanding domestic industry demand should result in the Soviet Union remaining a steady customer for U.S. cattle hides.

Dairy Cattle

Border trade and sales to middle-income developing countries should account for the lion's share of dairy cattle export growth over the next decade. Traditional markets such as Korea, Saudi Arabia, and Venezuela are expected to continue to be important markets in the next decade, but on a reduced level compared to the first half of the 1980s.

Canada. Canada's increased export activity will increase demand for U.S. breeding stock.

Mexico. Strong sales to Mexico will depend on continued economic growth. The forecast also assumes that the government of Mexico will continue to adjust milk prices to encourage production.

Colombia. Dairy cattle exports to Colombia should improve if the Colombian government resumes the issuance of import permits for dairy cattle.

Peru. Improved exports to Peru are based on the assumption that a government/private

sector irrigation project will continue in the Arequipa region and create increased demand for dairy cattle imports.

Brazil. U.S. dairy cattle exports to Brazil should rise as a result of economic growth and moderation of the balance of payments. Increased demand for dairy products will require imports of dairy cattle.

Algeria. A joint FAS/cooperator program proposal should be accepted by the Algerian government and will provide a beneficial impact and impression of U.S. dairy cattle genetics and expertise.

Tunisia. Current demonstration farm programs and other cooperator activities will create increased demand for U.S. dairy cattle.

People's Republic of China. China's demand for dairy products and an anticipated review of animal health agreements along with expansion of that country's quarantine facilities will expand the market for U.S. dairy cattle sales.

Taiwan. Taiwan's imports of U.S. dairy cattle are expected to dip and then recover over the next decade due to increased demand for dairy products.

Thailand. Increased demand for dairy products and U.S. technology should lead to a dramatic increase in cattle exports to Thailand.

Egypt. If Egypt should agree to a workable animal health protocol, exports of U.S. dairy cattle should nearly triple over the next decade.

Poultry Meats

Strong growth in poultry meats exports is forecast for the next decade. The Far East, Egypt, Canada, and Central America are the biggest gainers. A variety of factors will account for the surge.

Japan. Population growth and a need for parts should cause Japanese imports of U.S. poultry meats to rise dramatically.

Hong Kong. FAS analysts regard Hong Kong as a window to the People's Republic which will gain from population growth. Steady exports of U.S. poultry should result.

Egypt. The provision of CCC credit, as well as the introduction of poultry parts to the market, should lead to increased U.S. poultry sales to Egypt.

Singapore. Increased U.S. poultry exports to Singapore are predicated upon population growth.

Caribbean (Jamaica, Leeward-Windward Islands, Netherlands Antilles). Economic and population growth, as well as increased demand for poultry parts should lead to a modest improvement in sales to this region.

Canada. Population growth and competitive product cost should boost border trade with Canada considerably over the next ten years.

Mexico. U.S. poultry exports to Mexico should surpass earlier levels if that country's economy recovers.

Venezuela. A resumption of significant poultry exports to Venezuela assumes a stabilization of the economy and a removal of trade barriers.

Federal Republic of Germany. Although U.S. poultry exports to West Germany fell in 1985, increased demand should cause sales to once again attain the 1980-1984 average of 9,000 metric tons.

Saudi Arabia. Like Germany, Saudi Arabia should begin to import more from the United States due to increased demand.

Canary Islands. The Canary Island's position as a free trade zone should cause more U.S. poultry meats to be trans-shipped through this point.

Nigeria. U.S. poultry sales to Nigeria should surpass previous levels if the economy improves and the Nigerians remove their present ban on U.S. product.

French Pacific Islands. No major change in exports to this area is anticipated.

Eggs (shell)

Increased exports of U.S. eggs are forecast for countries in several parts of the world. Economic growth, population increases, and competitive pricing are the principal factors fueling higher egg exports.

Iraq. The United States can be price competitive in selling to Iraq. Depending upon whether or not there are open tenders, U.S. exports should resume to earlier levels.

Hong Kong. No major change in egg exports to Hong Kong is expected; the PRC could

add competitive pressures.

Canada. Canadian population growth plus the United States' competitive cost of production should cause egg exports to increase somewhat over the next decade.

Colombia, Trust Territories (Pacific Islands), and Bermuda. No major changes are expected to these nations.

Algeria. It is expected that the elimination of trade barriers will allow U.S. egg exports to Algeria to soar over the next decade. U.S. export credit programs will assist this trend.

Forest Products

FAS analysts anticipate strong export growth in several categories of lumber over the next ten years. It is expected that production of high quality softwood logs in competing countries such as the USSR and Canada will gradually shift to more remote, less competitive areas. Also, production of high quality hardwood logs in competing countries located in Southeast Asia will continue to decline to dangerously low levels. The prices of these tropical logs and tropical hardwoods from Africa will rise, narrowing the gap between these products and the prices of U.S. hardwoods.

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**Future Growth Markets For
U.S. Commodities And Products**

**Accompanying
Figures and Tables**

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COARSE GRAINS: Key Growth Markets for Imports

Country	1980-84 Average	1985	1990	1995
<u>1,000 MT</u>				
<u>Japan</u>				
U.S. Exports	14,755	15,400	18,500	20,750
Total Imports	18,834	20,700	25,000	28,000
<u>China</u>				
U.S. Exports	164	200	1,500	3,500
Total Imports	275	400	3,000	7,000
<u>Mexico</u>				
U.S. Exports	5,334	3,500	6,500	8,500
Total Imports	5,626	4,600	7,500	9,500
<u>Korea</u>				
U.S. Exports	2,964	1,500	4,000	5,000
Total Imports	3,145	3,400	5,500	7,500
<u>Egypt</u>				
U.S. Exports	1,210	1,400	2,000	2,800
Total Imports	1,250	1,800	2,600	3,500
<u>USSR</u>				
U.S. Exports	5,817	16,000	6,800	8,800
Total Imports	16,122	28,000	17,000	22,000
<u>Taiwan</u>				
U.S. Exports	2,711	3,602	3,675	4,550
Total Imports	3,805	4,180	5,250	6,500
<u>Saudi Arabia</u>				
U.S. Exports	54	150	676	1,421
Total Imports	3,727	6,800	5,200	6,700
<u>East Germany</u>				
U.S. Exports	1,669	690	1,032	1,497
Total Imports	2,626	1,805	2,400	2,900

Country	1980-84 Average	1985	1990	1995
<u>Venezuela</u>				
U.S. Exports	1,137	1,400	1,612	1,800
Total Imports	1,616	1,600	2,150	2,400
<u>Peru</u>				
U.S. Exports	419	305	436	516
Total Imports	466	350	545	645
<u>Algeria</u>				
U.S. Exports	291	500	624	1,004
Total Imports	661	1,105	1,600	2,350
<u>Iraq</u>				
U.S. Exports	168	1,100	464	600
Total Imports	459	1,300	929	1,200
<u>Colombia</u>				
U.S. Exports	164	203	245	299
Total Imports	265	395	408	498
<u>Syria</u>				
U.S. Exports	12	0	230	296
Total Imports	110	325	575	740

Cotton U.S. Exports to Top 15 Growth Markets 1980-1995

Country	Average 1980/84	Estimated 1984/85	Projected 1990	Projected 1995
Poland.....	13	0	200	300
USSR.....	109	340	440	540
Egypt.....	0	175	250	350
Yugoslavia....	46	200	250	325
East Germany...	0	0	50	100
Bangladesh....	75	80	110	150
Nigeria.....	15	30	60	85
Indonesia.....	278	300	325	350
Greece.....	88	85	110	135
Ghana.....	9	10	40	60
Philippines....	84	80	95	110
Morocco.....	22	25	35	50
Hungary.....	3	15	25	40
Zaire.....	3	7	15	25
Jamaica.....	0	0	10	15

U.S. Rice: Growth Markets

Country	1980-84 Average	1985	1990	1995
<u>Iraq</u>				
U.S. Exports	285	450	500	585
Total Imports	415	500	640	750
<u>Saudi Arabia</u>				
U.S. Exports	265	280	310	325
Total Imports	495	550	600	635
<u>South Africa</u>				
U.S. Exports	110	95	100	110
Total Imports	160	175	180	200
<u>France</u>				
U.S. Exports	74	120	120	130
Total Imports	207	200	210	250

FRESH FRUIT
PROJECTED U.S. EXPORTS TO GROWTH MARKETS
Fiscal Years
(Metric Tons)

Destination	:	Average 1980-84	:	Forecast	:	<u>Projected</u>	
				1985		1990	1995
Japan.....	:	357,133	:	400,000	:	500,000	600,000
Canada.....	:	512,357	:	450,000	:	550,000	590,000
Hong Kong.....	:	156,189	:	180,000	:	200,000	215,000
Singapore.....	:	34,253	:	37,000	:	60,000	70,000
Saudi Arabia.....	:	29,962	:	37,000	:	50,000	50,000
United Arab Emirates:	:	15,724	:	20,000	:	28,000	30,000
Sweden.....	:	16,420	:	7,000	:	15,000	25,000
South Korea.....	:	393	:	2,000	:	5,000	20,000
Malaysia.....	:	17,426	:	27,000	:	40,000	40,000
Australia.....	:	6,286	:	14,000	:	17,000	20,000
Mexico.....	:	14,825	:	15,000	:	15,000	20,000
Colombia.....	:	3,519	:	3,000	:	6,000	15,000
Thailand.....	:	2,009	:	4,000	:	6,000	10,000
Venezuela.....	:	16,995	:	----	:	1,000	10,000
Taiwan.....	:	59,435	:	50,000	:	60,000	75,000
	:						

PROCESSED FRUIT
 PROJECTED U.S. EXPORTS GROWTH MARKETS
 FISCAL YEARS
 (Metric Tons)

Destination	: Average : 1980-84	Forecast : 1985	Projected : 1990	Projected : 1995
	: : : : :	: : : : :	: : : : :	: : : : :
	: : : : :	: : : : :	: : : : :	: : : : :
	: : : : :	: : : : :	: : : : :	: : : : :
Japan.....:.....	48,427	45,000	50,000	55,000
United Kingdom.....:.....	10,298	11,000	15,000	20,000
Taiwan.....:.....	5,076	4,500	7,000	10,000
Algeria.....:.....	0	4,000	6,000	8,000
Mexico.....:.....	4,998	4,000	6,000	8,000
Saudi Arabia.....:.....	5,642	3,800	5,000	6,000
Iraq.....:.....	0	1,000	3,000	6,000
South Korea.....:.....	2,515	3,000	4,000	6,000
Egypt.....:.....	646	2,500	4,000	5,000
Kuwait.....:.....	800	900	1,500	3,000
Indonesia.....:.....	1,372	1,000	1,500	3,000
United Arab Emirates:.....	650	800	1,500	2,500
	: : : : :	: : : : :	: : : : :	: : : : :

FRUIT JUICES
PROJECTED U.S. EXPORTS TO GROWTH MARKETS
FISCAL YEARS
(1,000 liters, single strength basis)

Destination	: Average : 1980-84	Forecast : 1985	Projected : 1990	Projected : 1995
:	:	:	:	:
Japan.....	38,141	65,000	90,000	120,000
Mexico.....	9,067	20,000	30,000	40,000
Saudi Arabia.....	17,404	30,000	35,000	40,000
Taiwan.....	9,814	10,000	15,000	20,000
United Arab Emirates:	6,707	12,000	15,000	18,000
Israel.....	6,400	3,500	10,000	15,000
Australia.....	6,275	1,500	10,000	15,000
:				
Sweden.....	13,234	3,500	10,000	15,000
Bahamas.....	9,076	9,000	11,000	13,000
Hong Kong.....	7,624	2,000	10,000	12,000
:				
New Zealand.....	2,685	5,000	7,500	10,000
Singapore.....	4,943	5,000	6,500	8,000
Norway.....	6,290	2,500	5,000	7,000
Malaysia.....	4,261	4,000	4,500	5,000
:				

FRESH VEGETABLES
PROJECTED U.S. EXPORTS TO GROWTH MARKETS
FISCAL YEARS
(Metric Tons)

Destination	:	Average	:	Forecast	:	<u>Projected</u>	:
	:	1980-84	:	1985	:	1990	:
	:						
	:						
Canada.....	:	596,578		500,000		650,000	700,000
Hong Kong.....	:	29,889		33,000		40,000	45,000
	:						
Mexico.....	:	15,664		5,000		15,000	25,000
Singapore.....	:	3,902		1,000		6,000	12,000
Trinidad-Tobago.....	:	4,938		5,500		8,000	10,000
Taiwan.....	:	998		1,000		5,000	10,000
United Arab Emirates:	:	353		2,500		4,000	6,000
Australia.....	:	891		300		2,000	5,000
Venezuela.....	:	2,376		1,000		1,000	5,000
Windward-Leeward Is.:	:	1,803		1,200		2,500	4,000
	:						

PROCESSED VEGETABLES
PROJECTED U.S. EXPORTS TO GROWTH MARKETS
FISCAL YEARS
(Metric Tons)

Destination	: Average :	Forecast :	<u>Projected</u>	
	: 1980-84 :	1985	: 1990	: 1995
:	:	:	:	:
Japan.....	125,388	110,000	135,000	150,000
Australia.....	8,635	13,300	18,000	23,000
South Korea.....	1,260	2,700	4,000	20,000
Hong Kong.....	11,624	12,000	14,000	17,000
Singapore.....	6,295	6,400	8,000	10,000
Mexico.....	5,810	2,200	5,000	7,000
Taiwan.....	2,313	3,200	4,000	5,500
Windward-Leeward Is.	1,449	1,700	2,400	3,200
Trinidad-Tobago.....	1,860	1,700	2,400	3,200
Malaysia.....	1,366	1,400	1,800	2,300
New Zealand.....	102	270	500	1,000
Jamaica.....	468	150	400	1,000
:	:	:	:	:

TREE NUTS
 PROJECTED U.S. EXPORTS TO GROWTH MARKETS
 FISCAL YEARS
 (Metric Tons)

Destination	: Average : 1980-84 :	Forecast : 1985	Projected : 1990	Projected : 1995
	: : :	: : :	: : :	: : :
	: : :	: : :	: : :	: : :
Japan.....: 13,451	14,000	17,000	24,500	
Canada.....: 10,709	9,500	11,000	12,500	
Australia.....: 3,744	5,800	8,000	10,000	
Algeria.....: 760	6,000	8,000	9,000	
India.....: 2,147	3,000	5,000	7,000	
Taiwan.....: 1,047	1,400	3,000	5,000	
Iraq.....: 0	---	3,000	4,000	
Saudi Arabia.....: 2,186	2,000	2,800	3,500	
South Korea.....: 221	400	2,000	3,000	
United Arab Emirates: 705	800	1,100	1,400	
Kuwait.....: 535	400	600	700	
	: : :	: : :	: : :	: : :

WINE & BEER
 PROJECTED U.S. EXPORTS TO GROWTH MARKETS
 FISCAL YEARS
 (1,000 liters)

Destination	: Average : 1980-84	Forecast : 1985	Projected : 1990	Projected : 1995
:	:	:	:	:
Japan.....	10,654	4,800	25,000	100,000
Canada.....	41,199	22,000	50,000	80,000
:				
Hong Kong.....	11,169	5,000	15,000	30,000
Taiwan.....	4,904	5,000	15,000	30,000
Singapore.....	454	300	5,000	20,000
United Kingdom.....	4,772	6,200	9,000	15,000
Netherland Antilles..	4,956	3,700	5,000	8,000
Denmark.....	204	400	800	2,000
South Korea.....	56	100	400	2,000
Jamaica.....	74	100	500	1,000
Venezuela.....	324	200	300	1,100
:				

NURSERY PRODUCTS
PROJECTED U.S. EXPORTS TO GROWTH MARKETS
FISCAL YEARS
(\$1,000)

Destination	Average	Forecast	<u>Projected</u>	
	1980-84	1985	1990	1995
:	:	:	:	:
Canada.....	30,470	26,000	35,000	38,000
West Germany.....	9,401	9,000	12,000	14,000
Netherlands.....	8,264	8,000	10,000	12,000
Saudi Arabia.....	1,263	5,000	10,000	12,000
Japan.....	2,717	3,000	5,000	8,000
:				
Algeria.....	0	0	5,000	8,000
Iraq.....	0	1	3,000	6,000
United Kingdom.....	501	600	2,000	5,000
United Arab Emirates:	16	0	2,000	4,000
Israel.....	173	40	500	4,000
Costa Rica.....	181	60	1,000	2,000
Dominican Republic...	93	60	1,000	2,000
Guatemala.....	103	20	1,000	2,000
Jamaica.....	281	70	1,000	2,000
Bermuda.....	427	400	500	1,000
:				

HOPS & MISCELLANEOUS ITEMS
 PROJECTED U.S. EXPORTS TO GROWTH MARKETS
 FISCAL YEARS
 (\$1,000)

Destination	Average	Forecast	<u>Projected</u>	
	1980-84	1985	1990	1995
:	:	:	:	:
Canada.....	42,339	55,000	80,000	120,000
:	:	:	:	:
Netherlands.....	8,171	14,000	20,000	25,000
Japan.....	15,227	12,000	20,000	23,000
:	:	:	:	:
Colombia.....	6,115	2,500	10,000	12,500
Bermuda.....	6,133	7,000	10,000	12,500
Venezuela.....	7,417	9,000	10,000	12,000
Philippines.....	3,072	5,000	8,000	10,000
Windward-Leeward Is.	2,334	4,000	6,000	7,500
Barbados.....	1,414	4,000	5,000	7,000
Ecuador.....	1,143	3,000	3,000	5,000
Israel.....	647	100	1,000	3,000
:	:	:	:	:

*Hops only

U.S. BEEF (MT)

<u>Countries</u>	<u>5 Year Average</u>	<u>1985 Est.</u>	<u>Forecast</u>	<u>Forecast</u>
	<u>1980-1984</u>	<u>(MT)</u>	<u>1990</u> <u>(MT)</u>	<u>1995</u> <u>(MT)</u>
Japan	54,134	89,828	106,652	112,000
Canada	7,572	9,900	11,000	12,000
Barbados	339	335	385	435
Taiwan	1,399	1,600	1,700	1,800
Bahamas	2,845	2,500	2,700	2,900
S. Korea	981	1,640	1,869	1,900
Hong Kong	963	1,097	1,300	1,400
Singapore	645	656	890	950
Netherland Antilles	1,200	1,200	1,400	1,500
Mexico	896	1,000	1,200	1,275
Trust Territories	345	550	600	725
Bermuda	1,073	1,000	1,100	1,200
Leeward-Windward Is	607	350	350	400
Saudi Arabia	3,732	3,000	3,000	3,100
Cayman Islands	630	900	950	1,025

TOTAL POULTRY MEATS

<u>Countries</u>	<u>5 Year Average</u> <u>1980-1984</u>	<u>1985 Est.</u> <u>(MT)</u>	<u>Forecast</u> <u>1990</u> <u>(MT)</u>	<u>Forecast</u> <u>1995</u> <u>(MT)</u>
Japan	57,144	55,000	78,000	90,000
Hong Kong	27,223	34,000	34,000	34,000
Egypt	26,603	6,000	50,000	75,000
Singapore	24,011	25,000	34,000	40,000
Jamaica	21,483	19,000	22,000	23,000
Canada	17,770	26,000	38,000	51,000
Leeward-Windward Is	12,700	13,000	18,000	22,000
Mexico	12,592	10,000	10,000	15,000
Venezuela	9,843	500	2,000	5,000
Germany, Fed. Rep of	9,084	4,000	9,000	9,200
Saudi Arabia	7,076	4,000	9,000	7,200
Netherland Antilles	6,169	6,000	7,000	10,000
Canary Islands	5,859	0	3,000	8,000
Nigeria	5,660	0	0	10,000
FR Pacific Islands	3,893	3,000	4,000	5,000

U.S. PORK (MT)

<u>Countries</u>	<u>5 Year Average</u>	<u>1985 Est.</u>	<u>Forecast</u>	<u>Forecast</u>
	<u>1980-1984</u>	<u>(MT)</u>	<u>1990</u> <u>(MT)</u>	<u>1995</u> <u>(MT)</u>
Japan	30,730	25,000	29,000	31,500
Mexico	11,371	11,000	11,750	12,500
Canada	10,614	5,000	7,500	8,000
France	1,639	2,400	2,900	3,200
U. Kingdom	979	1,500	1,750	1,875
Bahamas	1,866	1,200	1,300	1,375
Belgium/Lux	489	1,500	1,650	1,700
F.R. Germany	473	436	555	575
Netherlands	557	600	900	1,000
Singapore	297	155	900	1,100
Chile	597	1,000	1,250	1,325
Leeward-Windward Is	759	475	550	600
Netherland Antilles	1,195	1,500	1,500	1,600
Venezuela	2,961	4,450	4,450	4,700
Hong Kong	534	375	450	525

U.S. VARIETY MEATS (MT)

<u>Countries</u>	<u>5 Year Average</u>	<u>1985 Est.</u>	<u>Forecast</u>	<u>Forecast</u>
	<u>1980-1984</u>	<u>(MT)</u>	<u>1990</u> <u>(MT)</u>	<u>1995</u> <u>(MT)</u>
France	44,414	40,000	37,000	35,000
Japan	34,369	42,520	68,475	75,000
Mexico	25,632	22,000	23,000	26,000
U. Kingdom	26,773	20,000	18,000	17,000
Egypt	12,643	11,000	12,000	12,000
Canada	13,884	14,500	15,520	16,000
Netherlands	11,880	12,500	13,500	14,000
Belgium/Lux	9,488	8,850	11,500	12,500
Hong Kong	546	614	634	650
F.R. Germany	6,531	1,500	2,500	2,700
Israel	2,764	2,500	2,700	2,900
Venezuela	1,765	1,300	1,300	1,400
Jamaica	1,486	500	600	650
Trinidad-Tobago	1,185	2,000	2,150	2,300
S. Korea	167	150	310	375

Tallow and Grease: U.S. Exports to Top 15 Markets,
Calendar Year 1984 with Comparisons and Forecast for 1990 and 1995

	<u>Average CY 1984</u>	<u>Average 1980-84</u>	<u>Estimate 1985</u>	<u>Forecast 1990</u>	<u>Forecast 1995</u>
-----METRIC TONS-----					
Egypt	245,677	210,627	250,000	257,000	260,000*
Mexico	138,944	112,823	140,000	145,000	150,000*
Pakistan	99,103	87,374	80,000	85,000	90,000*
South Korea	84,311	85,095	80,000	82,000	90,000*
Netherlands	81,255	127,643	75,000	100,000	110,000
Colombia	56,283	54,045	57,000	60,000	65,000*
USSR	55,545	59,762	35,000	40,000	45,000
Japan	41,233	75,843	40,000	42,000	50,000
Nigeria	38,282	34,732	40,000	45,000	50,000*
Spain	36,733	39,767	30,000	32,000	35,000
El Salvador	36,646	27,844	36,000	38,000	40,000*
Algeria	34,620	35,777	35,000	40,000	45,000*
Guatemala	23,798	18,168	20,000	25,000	30,000*
Turkey	23,759	19,514	20,000	25,000	30,000*
United Kingdom	23,738	49,033	26,000	28,000	30,000
Total-Top 15	1,065,087	1,038,047	1,004,00	1,090,000	1,178,000
Percent Change					
1984	-	-2.5	-5.7	2.3	10.3
Avg. 1980-84	-	-	-3.3	5.0	13.5
1985	-	-	-	8.6	17.3
1990	-	-	-	-	8.1

*Markets forecast to expand for U.S. exports.

Source: U.S. Census and Dairy, Livestock and Poultry Division/FAS

A.F. Nickerson/DL&PD/June 6, 1985

WHOLE CATTLE HIDE EXPORTS AND
PROJECTIONS BY VOLUME AND COUNTRY OF DESTINATION
(QUANTITY IN 1,000 PIECES)

<u>1/Countries</u>	<u>5 Year Average</u>	<u>1985 Est.</u>	<u>Forecast</u>	<u>Forecast</u>
	<u>1980-1984</u>		<u>1990</u>	<u>1995</u>
Korea	4,165	5,500	6,000	5,000
Taiwan	1,890	2,000	2,500	2,500
Mexico	1,869	2,500	2,700	3,000
Italy	876	1,000	1,300	1,000
Czechoslovakia	443	500	500	400
China	292	1,000	3,000	5,000
USSR	128	300	300	400
<u>2/</u> Malaysia	7	30	400	600
Thailand	8	35	300	500

1/ Currently important markets, Japan, Canada, Romania and Poland were omitted because we expect exports to them to decline.

2/ Trade sources indicate significant growth prospects.

U.S. DAIRY CATTLE EXPORTS

(HEAD)

<u>Countries</u>	<u>5 Year Average</u> <u>1980-1984</u>	<u>1985 Est.</u>	<u>Forecast</u> <u>1990</u>	<u>Forecast</u> <u>1995</u>
Canada	1,386	1,200	2,000	2,500
Mexico	6,915	20,000	15,000	15,000
Colombia	513	250	750	1,200
Peru	45	1,250	2,000	2,500
Brazil	38	250	1,500	1,500
Algeria	0	0	2,500	4,000
Tunisia	200	500	800	1,500
China	0	1,200	5,000	7,500
Taiwan	154	1,400	500	1,500
Thailand	0	200	500	1,200
Egypt	0	1,500	4,000	4,000

Traditional markets such as Korea, Saudi Arabia and Venezuela are expected to continue to be important markets in the next decade for U.S. dairy cattle exports, but on a reduced level compared to the first half of the 1980's.

EGGS (SHELL)

<u>Countries</u>	<u>August</u>		<u>Forecast</u>	<u>Forecast</u>
	<u>1980-84</u>	<u>1985 Est.</u>	<u>1990</u>	<u>1995</u>
	<u>Doz. (000)</u>	<u>Doz. (000)</u>	<u>Doz. (000)</u>	<u>Doz. (000)</u>
Iraq	9,641	0	10,000	10,000
Hong Kong	8,461	7,000	10,000	8,000
Canada	2,530	2,000	3,000	5,000
Colombia	373	300	400	400
Trust Ter. Pac. Is	285	325	350	400
Bermuda	206	120	200	500
Algeria	0	0	468,000	500,000

U.S. EXPORTS OF SOFTWOOD LOGS TO TOP 15 GROWTH MARKETS, 1980-1995

Country	:		:		:		:		:											
	:		:		:		:		:											
	: Average: Estimate: Projection : Projection: increase		: 1980-84: 1985 : 1990 : 1995 : 1985-95																	
:																				
:-----100 Cubic Meters-----																				
:-----																				
Japan.....	9,104	8,150	8,500		9,500				1.5%											
China.....	2,217	4,300	6,700		11,300				10.1%											
Canada.....	1,303	2,030	2,700		3,100				4.3%											
South Korea....	1,115	1,360	1,700		2,200				4.9%											
Hong Kong.....	92	50	110		140				10.8%											
Taiwan.....	26	20	110		140				21.5%											
Spain.....	8	5	10		10				7.2%											
United Kingdom..	6	5	10		10				7.2%											
Egypt.....	6	10	10		10				0.0%											
Venezuela.....	5	5	10		20				14.9%											
Saudi Arabia...	4	5	5		5				0.0%											
Italy.....	4	5	5		10				7.2%											
Soloman Is....	4	10	20		30				11.6%											
Mexico.....	4	5	5		10				7.2%											
West Germany....	3	2	5		5				9.6%											

:-----																				
SUBTOTAL.....	13,901	15,962	19,900		26,490				5.2%											

:-----																				
WORLD TOTAL	13,917	16,100	20,000		26,500				5.1%											

U.S. EXPORTS OF HARDWOOD LOGS TO TOP 15 GROWTH MARKETS, 1980-1995

Country	Average	Estimate	Projection	Projection	increase
	1980-84	1985	1990	1995	1985-95
	-----1000 Cubic Meters-----				-percent-
	:	:	:	:	:
West Germany....	208	115	145	245	7.9%
Canada.....	179	305	385	495	5.0%
Japan.....	33	40	45	55	3.2%
Taiwan.....	29	70	80	100	3.6%
Italy.....	26	20	25	30	4.1%
Belgium/Lux....	19	10	15	20	7.2%
Brazil.....	16	25	30	35	3.4%
Switzerland....	10	5	10	15	11.6%
South Korea....	9	10	15	20	7.2%
France.....	8	5	10	10	7.2%
Mexico.....	8	5	5	10	7.2%
United Kingdom..	7	5	5	10	7.2%
Netherlands....	7	5	5	10	7.2%
Spain.....	3	2	5	5	9.6%
Singapore.....	2	2	5	5	9.6%
.....
SUBTOTAL.....	564	624	785	1,065	5.5%
.....
WORLD TOTAL....	579	630	795	1,079	5.4%
.....

U.S. EXPORTS OF SOFTWOOD LUMBER TO TOP 15 GROWTH MARKETS, 1980-1995

Country	Average	Estimate	Projection	Projection	increase
	1980-84	1985	1990	1995	1985-95
	1000 Cubic Meters				-percent-
Japan.....	1,363	1,355	1,500	1,700	2.3%
Canada.....	881	705	802	940	2.9%
Australia.....	302	455	520	600	2.8%
Mexico.....	294	265	340	430	5.0%
Italy.....	267	175	220	270	4.4%
West Germany....	112	40	110	150	14.1%
United Kingdom..	97	65	80	100	4.4%
Saudi Arabia...	76	45	80	110	9.3%
Spain.....	71	55	90	140	9.8%
Dominican Rep...	62	70	70	80	1.3%
Trinidad/Tobago:	55	45	55	70	4.5%
China.....	50	90	125	170	6.6%
Jamaica.....	41	55	115	160	11.3%
Venezuela.....	37	10	55	110	27.1%
New Caledonia..	35	45	55	70	4.5%
SUBTOTAL.....	3,743	3,475	4,235	5,100	3.9%
WORLD TOTAL....	4,196	4,000	4,720	5,800	3.8%

U.S. EXPORTS OF HARDWOOD LUMBER TO TOP 15 GROWTH MARKETS, 1980-1995

Country	Average	Estimate	Projection	Projection	Average
	1980-84:	1985	1990	1995	annual
	-----1000 Cubic Meters-----				-percent-
Canada.....	380	350	440	490	3.4%
West Germany....	82	55	80	110	7.2%
Belgium/Lux....	77	55	70	90	5.0%
Japan.....	59	140	210	320	8.6%
Netherlands....	56	25	55	70	10.8%
Taiwan.....	45	110	170	260	9.0%
Italy.....	44	15	55	70	16.7%
France.....	38	20	45	55	10.6%
United Kingdom..	32	45	100	150	12.8%
Mexico.....	28	35	45	65	6.4%
Spain.....	12	10	15	20	7.2%
South Africa....	11	5	35	50	25.9%
South Korea....	5	5	10	15	11.6%
Norway.....	5	5	5	5	0.0%
Singapore.....	1	1	5	5	17.5%
SUBTOTAL.....	875	876	1,340	1,775	7.3%
WORLD TOTAL....	923	950	1,400	1,800	6.6%

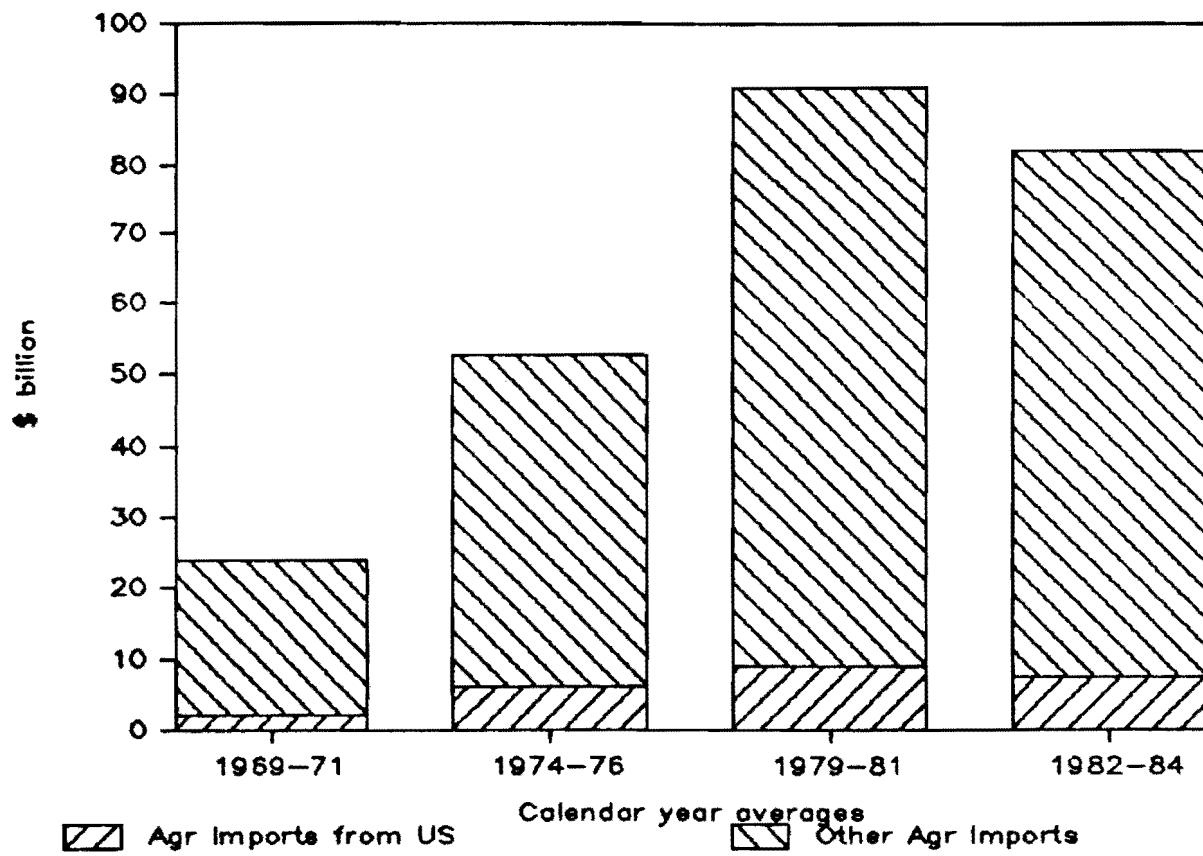
U.S. EXPORTS OF SOFT PLYWOOD TO TOP 15 GROWTH MARKETS, 1980-1995

Country						Average
						annual
	Average: Estimate: Projection: Projection: increase			: 1985 : 1990 : 1995 : 1985-95		
-----1000 Cubic Meters-----						
-----percent-----						
United Kingdom	103	70	160	200	200	11.1%
Belgium/Lux....	82	40	85	95	95	9.0%
Denmark.....	51	15	30	60	60	14.9%
Canada.....	44	25	40	50	50	7.2%
Netherlands....	40	30	75	95	95	12.2%
West Germany....	29	5	35	40	40	23.1%
France.....	9	5	20	25	25	17.5%
Mexico.....	9	20	25	25	25	2.3%
Saudi Arabia....	8	1	5	5	5	25.9%
Bahamas.....	7	5	10	10	10	7.2%
Japan.....	6	5	10	10	10	11.6%
New Caledonia..	5	5	10	15	15	11.6%
Trinidad/Tobago:	4	2	5	10	10	17.5%
Dominican Rep..:	3	2	5	5	5	9.6%
Netherland						
Antilles.....	2	1	5	5	5	17.5%

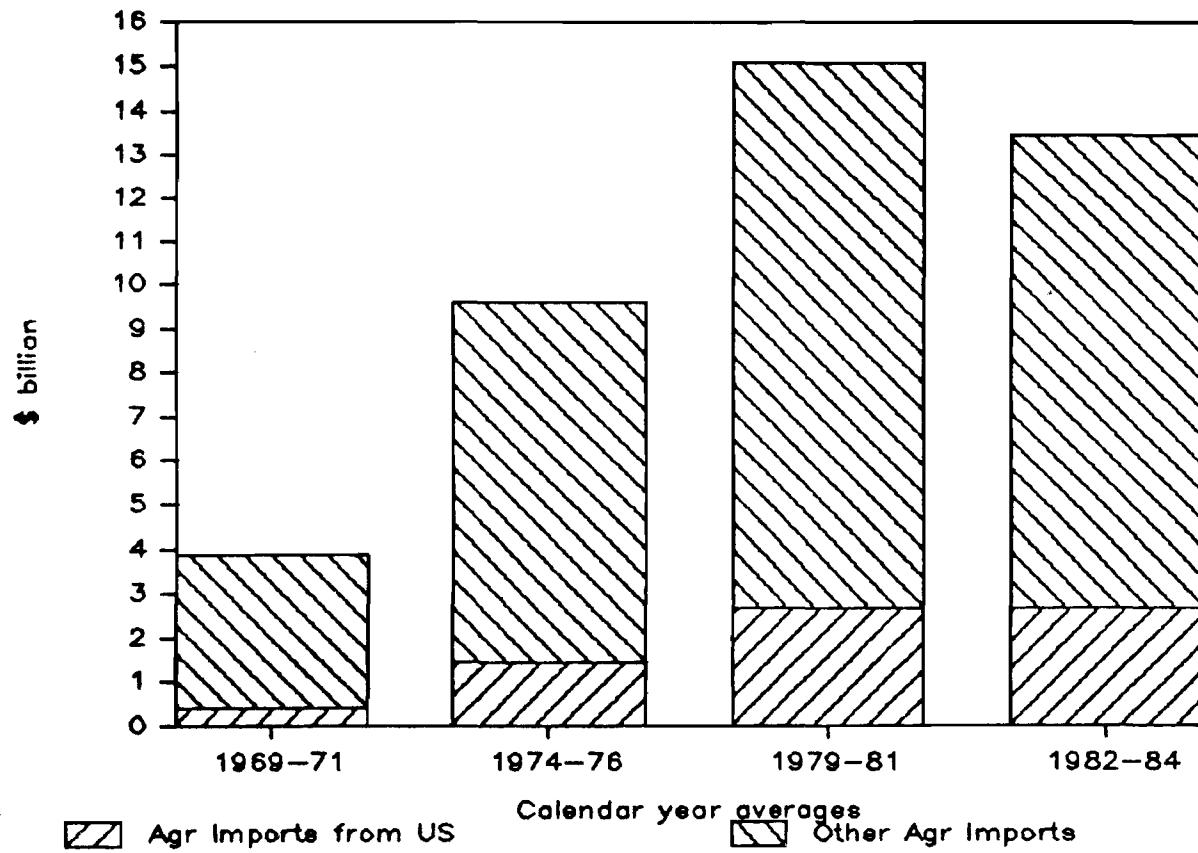
SUBTOTAL.....	402	231	520	660	660	11.1%

WORLD TOTAL....	435	260	545	670	670	9.9%

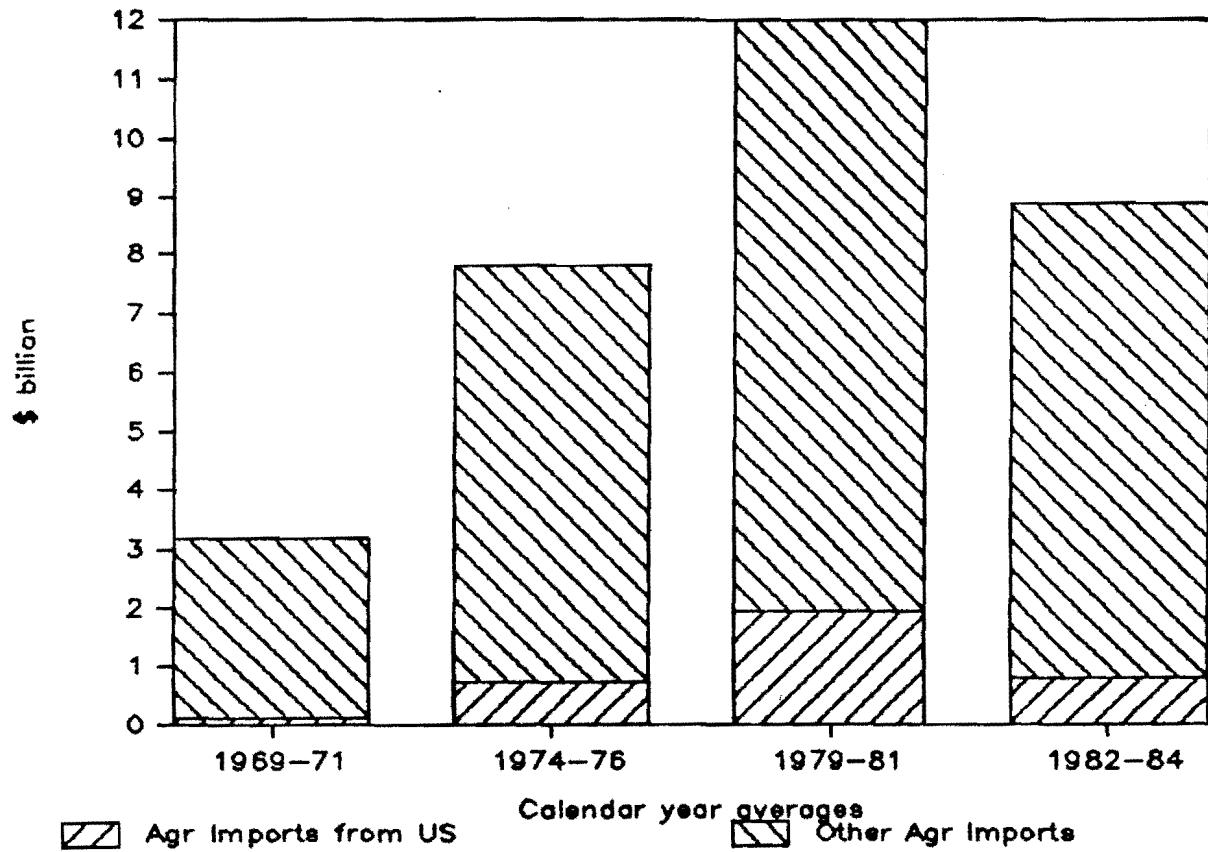
Farm Imports by the EC-10



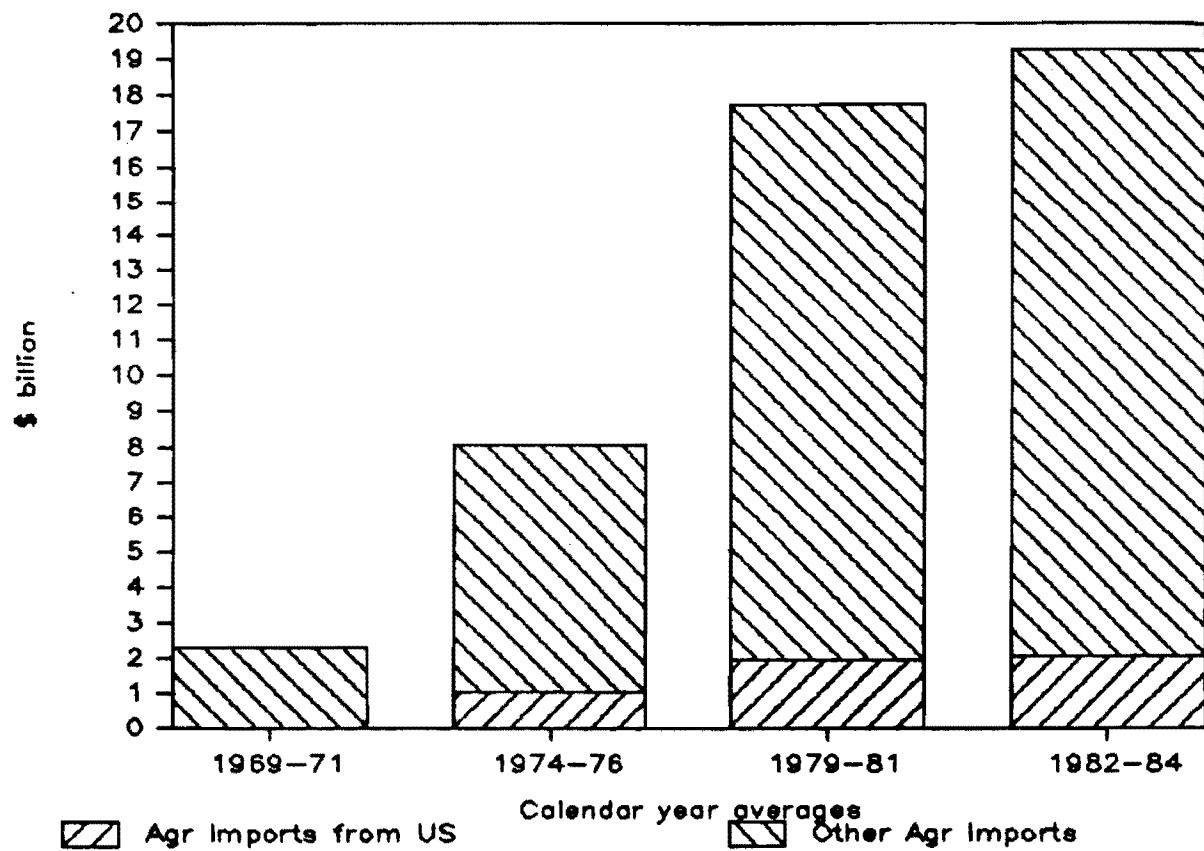
Farm Imports by OWE



Farm Imports by East Europe



Farm Imports by the USSR



Farm Imports by Japan

